

**AN INVESTIGATION INTO CHALLENGES IN ACCESSING
FINANCES BY SMEs FROM FINANCIAL SERVICE
PROVIDERS IN KHOMAS REGION,
NAMIBIA.**

**A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
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DECLARATION

I, Ester Oufrou Shangadi, declare hereby that this study is a true reflection of my own research, and that this work, or part thereof has not been submitted for a degree in any other institution of higher education.

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29 SEPTEMBER 2017

DEDICATION

To the Ministry of Finance, if it was not for their sponsorship, I would not have completed my MBA- Finance thesis. This project is dedicated to my husband, Mr. Yasser Alphather Shangadi, my grandmother, my late grandfather, my mother and my sister Ruth who laid a very strong foundation that made me who I am today. Special thank you to the Ashipala family including my siblings, whose words of encouragement never stopped ringing in my ears and their support and patience during the period of my study.

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ABSTRACT

Small and Medium Enterprises (SMEs) assumes a definitive part in any growing economy. In Namibia around 60 % of the SMEs are the source of employment. Despite the fact that there is an expansion in SMEs, however, there are likewise incalculable difficulties connected with the growth of SMEs. Thus, this study investigates the challenges in accessing finances by SME's from financial service providers in the Khomas Region in Namibia. Evidence from Namibia show that small firms are discriminated against by relatively large firms, in most cases, due to experience. Large scale firms can cope and solve their hurdles because they possess sound experience and financial position. There are also some hidden and apparent obstacles in the path of growth of SMEs in Namibia. The most important ones include labour issues, lack of coordination and regular information exchange mechanism amongst different institutions. The research study employed a mixed method approach, comprising of the qualitative and quantitative research designs. Interviews and Questionnaires with the use of both open-ended and close questions were used to collect qualitative empirical data from financial services providers in the region. Secondary data was obtained directly from previous literature reviews, books, journals and the internet. The descriptive statistics analyzed the data and conclusions were drawn from it. In this study, random sampling methodology was used to sample a population of 87 respondents and the data was obtained with the help of questionnaires. The data was further analyzed using graphs and tables. It was found that the majority of SMEs faces challenges in finance due to lack of collateral, risk and prolonged loan processing and procedures. It is suggested that for SMEs to improve access to finance, some of the recommendations that should be taken into consideration includes the provision of incentives for banks' lending to SMEs as well as strict enforcement of the Credit Reporting Act. The findings of the research revealed that at each stage SMEs have different financial requirements and will source their financial needs from different sources. The problem of access occurs due to the gaps that exist between the suppliers of external financing and the demand for financial resources. The research recommends that SMEs improve their knowledge of the financial procedures and the workings of the financial institutions, as it is crucial to their survival, while the financial institutions are implored to engage SMEs on improved support and contractual terms in order to reduce information asymmetry, moral hazards and adverse selection.

CHAPTER 1: INTRODUCTION AND BACKGROUND

1. INTRODUCTION

Chapter one provides an overview of the study. The orientation of the proposed study, statement of the problem, research objectives, significance of the study and limitations of the study are discussed in this chapter.

1.1 ORIENTATION OF THE PROPOSED STUDY

There is harmony among policy makers, economists and business experts that Small and Medium Enterprises (SMEs) are drivers of economic growth. A healthy SME sector contributes prominently to the economy through creating employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. According to Fida (2008), SMEs are the first step towards development in economies industrialization. The dynamic role of SMEs in developing countries positions SMEs as engines through which the growth objectives of developing countries can be achieved, a role that has long been recognized.

The Small and Medium Enterprise (SME's) sector through its labor-intensive contribution to the Namibia's economic development has been declared by the government to be a subject of national importance and has been designated a priority sector in terms of policy formulation, direct support from government resource as well as the donor community (Ministry of Trade and Industry, 1997). They play an important role in: (i) creating jobs (an estimated 40%-50% of total

employment can be attributed to SMEs, according to the Ministry of Industry, Mines and Energy (SME's Working Group); (ii) generating income for low-income people and vulnerable populations, but also for the population at large and (iii) fostering economic growth, social stability, and contributing to the development of a dynamic private sector. SMEs constitute the most dynamic segment in many developing economies as they are more innovative, faster growing and sometimes more profitable.

Namibia has witnessed a phenomenal growth in the number of business start-ups during the past two decades or so. This is, especially true, when it comes to the operations of Small and Medium Enterprises (SMEs). Indeed, almost 40,000 SMEs are currently registered in Namibia (Ogbokor, 2010). SMEs in Namibia do contribute to the national economy of Namibia in various ways such as: employment creation and generation, adding value to the Gross Domestic Product (GDP) of the country, helping towards the realization of the governments' Vision 2030 agenda just to mention a few. The contribution that SME's make to the Namibia economy is a clear illustration of the potential benefits that these enterprises can provide to the overall development of the country. The SME's sector contributed 12% to the annual GDP of Namibia and accounted for more than 20% employment of the country's workforce (Institute of Public Policy Research, (2005). An analysis of competitive and constraints of SME's in the global market by the United Nation's International Trade Centre showed that, the major constraints faced by SMEs are in critical areas of access to finance, access to market, lack of business skills and knowledge.

Research on the SME sector in Namibia also faces problems in defining and demarcating the sector (MTI, 1997; Namibia Economic Policy Research Unit (NEPRU), 2003). The main

problems include setting the criteria for defining SMEs in Namibian term of turnover, capital employment and registration of business (Ogbokor & Ngeendepi, 2011). This compounds the problem of aligning the financial programmers provided by the Development Financial Institutions with the specific segment of SMEs with unique needs and characteristics. Ogbokor (2010) conducted a research which focused on the problems faced by SMEs in Namibia. Shejavali (2007) focused on SMEs in the retail sector in Namibia and the challenges that they encounter. There was no study which focused on the challenges by SMEs to access finance in Namibia and this is the gap this study intends to fill.

The evidence from Namibia shows that small firms are discriminated against by relatively large firms in most cases due to experience. Large scale firms can cope and solve their hurdles because they possess sound experience and financial position. There are also some hidden and apparent obstacles in the path of growth of SMEs in Namibia. The most important ones include labour issues, lack of coordination and regular information exchange mechanism amongst different institutions according to (Ogbokor & Ngeendepi, 2011).

Access to finance is one of the key challenges faced by Small and Medium Enterprises (SMEs) and continues to hinder growth and development in this dynamic sector. Previous SME surveys done indicate that entrepreneurs' concerns regarding access to finance include high interest rates, high collateral requirements and delays in processing loans. In Namibia, SME's still faces the same serious challenges of which the biggest are access to finance, access to market and information, access to innovation and lack of business skill and knowledge. The SME policy of 1997 called for deregulation, SME access to finance, technology transfer, market access

assistance and SME's training. In 2000, a Small Credit Guarantee Fund (SBCGF) was set up to the tune of N\$16 million to serve as collateral or security for local commercial banks to lend to SME entrepreneurs. This was done to convince the country's commercial banks to agree and make a commitment to providing more lending to SME projects (Shejavali, 2007).

Namibia created a number of institutions in an effort to increase access to financial services, as well as responding to the plight of the poor. Due to the operational inefficiencies, which characterize most of the Development Finance Institutions (DFI's), some of these entities collapsed or merged to form new companies (Nakusera, Kadhikwa& Mushendami, 2008). Those which are still operational include Development Bank of Namibia (DBN), Agricultural Bank of Namibia (AGRIBANK), four commercial banks in Namibia, namely Bank Windhoek, First National Bank Holding (FNB), Nedbank Limited and Standard Bank, each of which offers a unique set of services to SMEs. On 3December 2012, the long-awaited SME Bank opened its doors for business after the Bank of Namibia granted its banking license. As a result, they are providing a more complete package that goes beyond the extent of simply providing loans/capital financing for SMEs. The banks are active in the public mainstream as a supporter of SMEs, being involved in expos of sorts, training and mentorship programmes.

This study, therefore, aims to investigate the challenges in accessing finances by SMEs by different forms of financial provider services support, given to SMEs in Khomas Region from financial institutions (commercial banks), government entities, micro lenders and others parastatals such as the Namibia Development Corporation and Development Bank of Namibia. In addition, the study attempts to provide suggestions to government and financial institutions on

how to facilitate owners and managers of SMEs to take advantage of financial support programmes that are available for them. From a theoretical perspective, this study also seeks to make a contribution to the existing academic literature by providing insights into the principal challenges experienced by SMEs in accessing finance and their impact on SMEs performance in a developing country.

1.2 PROBLEM STATEMENT

An analysis of competitiveness and constraints of SMEs in the global market by the United Nation's International Trade Centre (ITC) researched by Wittig (1997) showed that the major constraints faced by SMEs are in critical areas of access to finance. The National Planning Commission's National Development Plan 4 (2012) highlighted access to finance of start-up and SMEs in Namibia as one of the major problems faced by SMEs. It has been and still is one of the major problems contributing to the slow development and high 'mortality' rate of SMEs in the country. Investigating access to finance for SME's in Namibia indicates that the challenges in accessing entrepreneurial finance are both supply and demand oriented (Ogbokor, 2011).

According to the Institute of Public Policy Research (IPPR) (2005) the contribution that SMEs make to the Namibian economy is a clear illustration of the potential benefits that these enterprises can provide to the overall development of a country. Namibia's main financial service providers are financial institutions, microfinance and parastatals. Ogbokor & Ngeendepi (2011) noted that based on the 100 participants who were interviewed on the challenges faced by SMEs in Namibia none of the participant had received any funding during the starting up phase.

About 35% of the respondents indicated that they had received financial help from the government after their company had been operating for many years. Many of the respondents in the same research had to borrow money from friends and relatives. The research intends to explore why financial institutions are reluctant to provide start-up capital to SMEs. Thus, the challenges SME's are facing when accessing finances from financial services providers.

1.3 OBJECTIVES OF THE STUDY

Despite the importance of the SME sector in terms of economic growth and employment, Namibia's small-scale entrepreneur's access to finance remains one of the greatest challenges for SMEs in Namibia. The objectives of this study are to:-

- To explore the challenges of accessing finance from different financial services providers by SMEs in the Khomas region;
- To explore the impact of the challenges faced by SMEs owners on their ability to start up, grow and survive; and
- To recommend solutions in improving access to financial services providers in Namibia.

1.4 SIGNIFICANCE OF THE STUDY

This study will contribute to the field of management science, research and practice regarding the analysis of access to financial services providers for SMEs. The results of the study will contribute to the understanding of the current financing challenges facing SMEs and assist financial institutions, SME support organizations and SMEs to better understand the role and

importance of effective stakeholder collaboration in improving SME access to finance. It will also assist other researchers to further studies on unresolved aspects of the problem that may lead to more insight and finding towards enhancing further understanding of the problem. This research intends to fill the gap in knowledge in terms of what can be done to help SMEs secure funding for their businesses.

1.5 LIMITATION OF THE STUDY

The study only focused on SMEs and financial institutions as support organizations operating in or providing finance and support/development services to SMEs in the Khomas region. The fact that there were no venture capital organizations that participated in the study is a limitation in the sense that the findings of the study could not be regarded as fully representative of the state of SME access to finance in Namibia.

The biased nature of participants' responses from financial providers and SMEs to questions was regarded as another limitation to the study. To this extent, respondents were not accurately commented on, or may have disguised sensitive issues, although assurance in respect of confidentiality of responses and anonymity of participants were provided.

The purpose of this study was to analyze access to financial services as a source of failure for SMEs in Khomas region. At the time of documentation of this partial fulfillment, the researcher had interacted closely with the area business community and thus it was easily available and cooperative to the researcher.

1.6 CHAPTER SUMMARY

In this chapter the focus was on the overview and the importance of SMEs around the globe and in Namibia as well. The chapter discussed the historical and background of SMEs in Namibia, The research problem, which is the access to finance, remains one of the greatest challenges for SMEs in Namibia. It is suggested that the study is vital because it will be used by the Government of the Republic of Namibia, Commercial banks, and the Namibia Development Bank in developing policies that encourage the growth and sustainability of Small and Medium Enterprises (SMEs). The significance of the study is discussed and many more. The following chapter deals with the comprehensive literature review of the subject matter.

CHAPTER 2: LITERATURE REVIEW

2. INTRODUCTION

Literature review is an examination of scholarly information and research based information on a specific topic or area of research (Dawidowicz, 2010). It endeavors to create a complete and accurate representation of facts and knowledge and research based theory that are at disposal on a given research area. Literature review is described by Sekaran (2008) as a clear and logical presentation of the relevant research work done as far as a particular sphere of research is concerned. This chapter provides a review of existing literature on the issues divided into appropriate heading and sub-heading that provide a comprehensive account of the theoretical and empirical issues of the study.

2.1 DEFINITION OF SMALL AND MEDIUM ENTERPRISES (SMES)

Different authors in different countries have different perspectives of defining SMEs according to suitable situations in their environment. In this chapter the concept of Small and Medium Enterprise is defined and discussed together with other concepts. Kumar, Wakdikar and Kapoor (2007) argues that at present there is no universally agreed definition of the SMEs sector; consequently, the definition has many variants depending upon who is doing the defining and the purpose for which the definition are being made.

The various definitions proposed and used are generally based on numbers of employees, turn-over levels, capital base, fixed asset values and degree of formalization. According to Abdel and Haan (2004) a Small and Medium Enterprise is understood to be an independent business

undertaking where operational and administrative management are in the hands of one or two persons, usually the owner (manager) who is responsible for making decisions of the enterprise.

Hansohm (1997) formulated an 'economic' and 'statistical' definition of a small firm. Under the 'economic' definition, a firm is said to be small if it meets the following three criteria: it has a relatively small share of their market place; it is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure; and it is independent, in the sense of not forming part of a large enterprise. The statistical definition of an SME focus on three main, firstly measuring the size of the firm and its contributing to the GDP, employment and exports, comparing the extent to which SMEs contribution to the economy has changed over time and a cross country contribution of SMEs in an economy over time (Hansohm, 1997).

Nieman, Hough and Nieuwenhuizen (2004) also noted that multiplicity of definitions must not be regarded as a problem in itself, but demonstrates the complexity of the issue under scrutiny. In spite of the controversy surrounding the definition of SMEs, Hansohm (1997) argued that the definitions of SMEs are critical in helping to frame a debate about the role of SMEs in economic development and has serious implication for accessing donor funding. Dong and Men (2014) advocates an approach that goes beyond focusing on the revenue of a company to taking in account country specific factors in which an SME operates. This is due to the fact that definitions based on revenue system vary as well from one country to another.

In Namibia, some SMEs are either formal or informal. Laws and regulations are partly applied to the formal sector in Namibia (Kadhikwa, Nakusera & Mushendami, 2008). Employees do not usually have an employment contract, they have no vacation, no social security and they do not take leave. In many cases employees are also family members. In the majority of cases they do not pay taxes, keep receipts or conduct bookkeeping.

2.2 SMES IN THE NAMIBIAN CONTEXT AND THEIR ROLE IN ECONOMIC DEVELOPMENT

The Namibian government through the SME Policy (MTI, 1997) classified SME's as those businesses that fall into the following categories (Table 1) based on the number of employees, annual turnover and capital employed.

Table 1: Definition of small business

Criteria			
Sector	Employment	Turnover less than N\$ 1 000	Capital employed than N\$ 1 000
Manufacturing	Less than 10 persons	1 000	500
All other businesses	Less than 5 persons	250	100

Source :(*Ministry of Industrialization, Trade and SME Development, 1997*)

According to the MTI (1997) the European Union for example, classifies business employing less than 50 employees as small. It will be impractical to employ this definition in Namibia, as most business will become small (MTI, 1997). On the other hand, the South African National Small Business Act 102 of 1996 classifies small businesses into two categories, micro-enterprises and small business. The micro-enterprise is a business that is often owned by one person and his immediate family member; it lacks formality in terms of business licenses, registration, format business and accounting procedures. It is from this basis that not all definitions of micro-enterprise are appropriate to Namibia.

Nashidengo (2007) reported that three baseline surveys were conducted by the Ministry of Trade on SMEs in selected regions of Namibia such as Ohangwena, Oshana, Oshikoto and Khomas. A staggering 90% of the people in this sector were not covered by any pension scheme, medical aid or any type of insurance and did not enjoy other benefits such as annual leave. The Institute of Public Policy Research (IPPR) (2005) conducted a study on the contribution of SMEs to Namibia's Gross Domestic Product (GDP) and concluded that SMEs contribute 12% to the GDP and 20% to national employment. The range of SMEs that are found in Namibia are in many sectors including subsistence farming, various type of crafts, diverse manufacturing, small scale mining, small scale construction, informal services and informal trade(Nyakunu,2014).

In spite of the important role of SMEs on employment creation, those employed by SMEs face numerous challenges. A research conducted by the Namibian Labor and Research Institute (2002) revealed that people did not join the informal sector by choice, but because of limited

alternatives. The study showed that many people in the SME sector earned less than US\$100 per month and had no benefits from the social security commission. The respondents preferred to be employed in large private company than working in the SMEs sector. Similarly, Mass and Herrington (2006) observed that the working conditions in the informal sector were marked by long working hours, low salaries, lack of formal employment contracts, lack of benefits such as pension and maternity leave. Consequently, Jauch (2010) concluded that most of the people employed in the SMEs sector in Namibia can be categorized as the working poor. The potential of SMEs to contribute to economic growth are therefore limited by numerous challenges.

2.3. BUSINESS ENVIRONMENT AND SMES DEVELOPMENT: A THEORETICAL PERSPECTIVE

This section examines the theories that inform this research. The theories that inform this research are the Agency Theory and the Static Trade-off Theory. The Static theories stress the risk that SMEs face in trying to access money from the bank. For SMEs, the risk of bankruptcy is quite high. The Agency theory analyses the way in which the challenges of ownership of SMEs and other factors increases the element of risk when giving credit to an SME.

2.3.1. Static Trade-off Theory

Freiling (2007) mentions that the term Static Trade-off Theory is used by several authors to describe a family of related theories. Kim and Gallent (2000) explains that the trade-off theory claims that a firm's optimal debt ratio is determined by a trade-off between the losses and gains

of borrowing, holding the firm's assets and investment plans constant. The gain of debt is primarily the tax-shield effect, which arises when paid interest on debt is deductible on the profit and loss account. The costs of debt are mainly direct and indirect bankruptcy costs. The Static Trade-off Theory has implications for SMEs.

Lepolesa (2008) points out that for SMEs, the expected costs of bankruptcy are quite high and the expected costs of financial distress may outweigh any potential benefits from the tax shield. SMEs rarely generate profit in the early stages of operations, and the benefit of tax shields of interest payments remains doubtful. Kim and Gallent (200) point out that SMEs have limited access to external equity. In addition, internal equity is often inadequate for growing SMEs. Therefore, SMEs have to depend on external debt to survive and grow.

2.3.2. The Agency Theory

Lepolesa (2008) identify two types of agency conflicts. The first focuses on the conflict between shareholders and managers and the second on the conflicts between equity holders and debt holders. The agency has important implication for the relationship between stockholders and debt-holders. Stockholders are interested in the return over and above that amount which is required to repay debt. Debt-holders are only interested in the debt payment specified in the contract.

Freiling (2007) points out that the Agency Theory predicts that growth firms should have less debt. Firms that are expected to make profitable investments should have less need for the

discipline that debt provides. This would seem to be a serious omission for two reasons. First, debt and equity represent different constituencies with their own competing, often mutually exclusive goals. Second, as the level of debt increases, the corporate governance structure can change from one internal control to one external control. For firms that adopt debt as a control mechanism, lenders become the key constituent in the corporate governance structure. This can have a significant impact on both managerial discretion, and on the ability of an organization to deal effectively with its competitive environment.

Kim and Gallent (2000) note that the Agency Theory gives vital insights into the problems of ownership, management interrelationship and credit rating rationing. Issues around information asymmetry, moral hazard and adverse selection are likely to arise in contractual arrangement between firms and external providers of finance. These problems may well be more served, and the associated costs much higher for SMEs than for large business. SMEs are also subject to the risk of asset substitution which, in practice, means a change in the firm's asset structure (Cofie, 2012).

Ackah and Vuvor (2011) suggest that lenders' strategies for dealing with these problems also add significantly to the cost of dealing with this sector. For a large enterprise, the evaluation of an application for finance may be limited to the assessment of an (audited) set of financial statements (information asymmetry) and supporting documentation provided by the applicant. For SMEs, the assessment frequently has to go far beyond this, implying a substantially higher transaction cost. It can be concluded that due to the agency problem, asymmetric information problems and credit rationing behaviours of financial institutions, SMEs, particularly SMEs are

significantly denied access to external financing. Therefore, the capital structure decisions for SMEs are greatly influenced by factors beyond their control (Ackah & Vuvor, 2011).

For SMEs, asset substitution may well take place between the enterprise and the owner's household. Thus, the proximity to the household, the lack of legal formalization, weak financial disclosure and the owner-managed nature of SMEs make it hard for lenders to track ongoing changes to the asset base of the SME. The presence of these problems in SMEs may explain the greater use of collateral lending to SMEs as a way of dealing with these agency problems.

2.3.3. The challenges in accessing finance by of on SMEs Development: The Perspective of the SADC region.

Mass and Herrington (2006) observed that trade liberation has a notable impact on firm market dynamics in the SADC region. They noted that the purpose of regional integration is to facilitate trade within a regional economic space and through enhanced trade opportunities to obtain decision at the level of the firm on how to enhance production.

Kadhikwa, Nakusera and Mushendami (2008) stated that in some cases it is important to create a business environment that protects SMEs from unnecessary competition from foreign goods as what transpired in the Asian Tigers. They argued that the SMEs in the South East Asian Tigers received government support and protection from external competition. Jauch (2010) submits that this lesson may be appropriate for Namibia especially given the point that Namibia tends to be flooded by imports in virtually every sector. It is safe to note that Namibia's manufacturing

industry is still very small in spite of numerous incentives that are offered to investors under the Export Processing Zone (EPZ).

Mass and Herrington (2006) explained that gender inequality tends to also affect the operations of SMEs in the SADC region. It is noticeably that in Africa women are less mobile than men and they have less cash. Nashidengo (2007) states that expansion opportunities for women in business are limited in many countries and access to business for women is constrained by culture. This reflects the failure on the part of central authorities to reform laws and support women against traditional rules. Women also confront serious challenges in accessing financial support from the banks due to customary practices. In Swaziland women are not allowed to register property and they need a men's consent to open a bank account or officially register a business (Akah & Vuvor, 2011).

The World Bank (2009) highlights that the same scenario occurs in the Democratic Republic of Congo, where women cannot register a business with a male person in attendance. In Botswana, Angola, Namibia, Swaziland and Tanzania the number of unregistered women entrepreneurs is very high among those in micro firms and SMEs.

2.3.4 Challenges of Accessing finance for SME's in South Africa

Access to finance remains a major problem for SMMEs in South Africa despite the above legislation and the government agencies that have been put in place. There is research that has been done in South Africa in which finance or the lack thereof emerges as one of the biggest

barriers with regard to starting and growing SMEs. This includes a SME survey done by FinMark Trust which reflects that sourcing finance 34 was cited as the main problem faced by small business owners, while access to finance was one of the major obstacles for business growth (FinMark Trust, 2010). Tlhomola (2010) supported this view and mentioned that one of the factors leading to failure of SMEs is lack of access to finance. Herrington et al. (2009) argue that access to finance is a problem for the South African SMEs.

Olawale and Garwe (2010) investigated obstacles to the growth of new SMEs in South Africa by conducting a research of 187 business owners in the Eastern Cape. They discovered that the first obstacle that was cited by most of the respondents were lack of access to finance, followed by lack of collateral, crime and lack of owners' equity contribution. In a survey conducted by Orford, Wood, Fischer, Herrington and Segal (2003), selected financial experts in South Africa and other participating countries identified the financial support as the number one limiting factor for SME growth. The survey findings has also concluded that in all developing countries, financial support is the number one limiting factor, with the primary problem being access to finance.

Nieuwenhuizen and Nieman (2004) concluded that the lack of sufficient financing is a serious constraint during the formation of new firms as well as at later stages, as business requires additional inflows of capital to support expansion and growth. Furthermore, Naude and Havenga (2004) also highlighted that SMMEs have problems in raising both short- and long-term finance. Small businesses have little security to offer banks in exchange for loans and this makes obtaining finance much more difficult than for larger firms.

According to Smorfitt (2009) SMEs in South Africa struggle to raise finance from banks. This is because of the reluctance of banks in taking risks when it comes to financing SMEs (International Financial Corporation, 2010). FinMark Trust (2006) discovered that only two percent of new SMEs in South Africa are able to gain financial support from the bank. Segal (2002) further revealed that 75 percent of SMMEs' applications for bank credit by new SMMEs in South Africa are rejected.

2.3.5 Challenges of Accessing finance for SME's in Zambia

Borrowing from institutions other than commercial banks can pose a serious problem in terms of the high costs of borrowing, rendering businesses unprofitable and unable to grow. The burden of high borrowing costs are much greater in Zambia if businesses were to borrow more from micro lenders or "loan sharks", whose lending interest rates are exorbitant. However, because of a lack of access to loans from the commercial banks, some firms may have limited choices and thus be obliged to borrow from such institutions according to (Deressa, 2011).

Ravi, (2009) noted that the primary objective of the study was to assess the MSME demand for financial services in order to guide the expansion and growth of MSMEs in Zambia. A major assumption was that commercial banks lack sufficient understanding of MSMEs due to the nature, size, form and type of business, from which to build the capacity to 80 services this sector. It is also assumed that the MSMEs operators are not attractive to commercial bank finance services. These include the need to view capital constraints within, including the cultivation of a credit culture within the MSME sector itself and the development and consistent

application, of lending practices within the banking sector aimed at developing the MSME sector.

In addition to these, Cassar, (2004) state that relationship between Banks, MSME operators and BDS provider is very important to facilitate understanding of one another. This is in spite of very low levels of mistrust between the banking and MSME operators, generally based on a lack of information and experience. Existing connections between banks and MSMEs provide a starting point that can be further supported through carefully designed interventions and with follow-up technical assistance. The most consistent views from interviews with MSME operators in Zambia and that of Government is that lack of affordable loan capital, which is a major impediment to the growth and expansion of their businesses. The high rate of interest and bureaucratic bank lending procedures have led majority of MSMEs to stay away from commercial banks.

Generally, According to Levy, (1993) MSME operators believe additional capital alone will solve the majority, if not all, of the problems they are facing. If MSMEs were to develop business planning documents, business plans, budgets and cash flow projections that lay out their long-term financing needs using standard financial projections and industry-accepted ratios and financial documentation, commercial banks would be in a better position to evaluate the viability of the enterprise and the use of bank debt within the enterprise's overall operations according to . The Zambian MSMEs sector will have a positive prospect in accessing bank financing if the missing link- (BDS) is strengthened specifically by providing training and advisory services to MSMEs so that banks will consider the sector for possible financing.

2.4. CHALLENGES OF ACCESS TO FINANCE IN NAMIBIA

The lack of finance is one of the prime factors hindering the survival and growth of SMEs because most SMEs encounter great difficulties in rising fixed and working capital because of the reluctance of the banks to provide loans. There is limited knowledge on the role that can be played by financial institutions in helping to address the challenges faced by SMEs. This study intends to fill that gap. Mass and Herrington (2006) highlight that a significant number of entrepreneurs are of the opinion that although there seems to be sufficient funds available, access to these funds remains difficult, especially for SMEs. Similarly, the Bank of Namibia (2010) indicated that many businesses did not make any significant investment in 2009 and one of the primary reasons for limited investment was limited financial resources. Access to financial resources is observed to be a major stumbling block to business expansion in Namibia both for the formal and informal sector.

According to APO (2001); Sleuwaegen and Goedhuys (2002) insufficient capital or lack of financial sources are the major obstacle for SMEs and usually entrepreneurs need to utilize personal financial sources to start up their business and to expand the operations, since the internal financial resources are normally insufficient. Nichter and Goldmark (2009) claim that there are policy biases towards large enterprises and small firms face problems in growing due to lack of access to finance. SMEs have difficulty in growing due to insufficient collateral, high transaction costs and incapability to deal with the complexity of formal financial institutions (Leopairote, 1997).

At the core of urgent efforts to improve the economic situation of developing countries, a strong focus on macro-economic stabilization including the promotion of SMEs, the pursuance of massive trade and investment liberalization programme are vital to encourage foreign direct investment (DTI, 2004). In an effort to promote SMEs, Namibia should move towards relaxation of most restrictions on current and capital transfers, introduce tax relief to investors as well as improve access to foreign exchange at near market rates, in order to create a conducive environment, where small businesses could be promoted (DTI, 2002). Access to finance has been acknowledged by many as one of the major barriers to the development and growth of small business in the country. In spite of the significance of SME's to the economy, formal financial institutions in general have been reluctant to provide credit and finance facilities to SME's until the early 2000s (Nakusera, Kadhikwa & Mushendami, 2008). These companies are operating under the Usury Act (N0. 73 of 1968), thus there is no separate legislation on factoring and leasing in Namibia (FSAP, 2006).

This dismal state of affairs has been attributed to a number of factors such as risk adverse bankers, inappropriate financial products and astronomical bank charges and the tendency has been to extend financial services to those that have regular income and collateral (April, 2005). The Ministry of Industrialization, Trade and SME Development (MTI) (1997) asserted that informal business often lacked required accounting skills needed to generate data needed to convince banks to give the business loans. The Namibian banking sector also faces a challenge of irregular clients. These are individuals that do not have a bank account and when they approach a bank for credit they are likely to be rejected, if they do not have collateral. Banks

usually maintain that these people do not have a credit history and it is difficult to ascertain their ability to repay the loan (Institute of Public Policy Research (IPPR), 2005).

In addition, Yasseleva (2013) suggest that limited access of small enterprises to formal credit in developing and emerging economies is largely due to the relatively underdeveloped nature of the financial system in Namibia, the lack of liquidity and inexpensive in small-scale lending in many of these countries. Bank branches outside the capital cities frequently provide only cash and do not have the authority to make loans, leaving small enterprises in rural areas disproportionately disadvantaged. If commercial banks do extend credit to small firms, it may take up to several months to process applications. In this study, banks advanced five main reasons for their reluctance to extend credit to small enterprises including: high administrative cost of small-scale lending, asymmetric information, poor financial management, high risk perception and lack of collateral. Although reasons apply to developed as well as developing economies, they tend to be more significant in developed countries (Musara& Fatoki, 2010).

2.4.1. High administrative costs of small scale lending

According to Marr,Chiwara and Munyuki (2011), SMEs typically require relatively small loans as compared to large firms. The transaction cost associated with processing and administering loans are, however, fixed and banks often find that processing small SME loans is inefficient. Ackah and Vuvor (2011) suggest further that administrative cost also include information gathering cost such as visiting borrowers, analyzing their applications and monitoring their loans. For a number of reasons, these costs tend to be higher for small than for large firms. Small

enterprises are often located away from the main urban centers, their accounting skills and standards are usually lower, and banks lack experience in servicing them (Cofie, 2012).

2.4.2. Asymmetric information

Yesseleva (2013) posited that it is a prerequisite for the efficient allocation of resources by market forces, that all participants share the same relevant information. This is not the case in financial markets. Borrowers will always know more about the viability of their projects and the ability and willingness to repay than lenders (Cofie, 2012). The lenders are thus faced with uncertainty about both the expected rates of return of the project they are financing and the integrity of the borrower. This uncertainty increases as the length of the loan increases. Borrowers face difficulties in transmitting information about their projects to lenders, as lenders will suspect them of underestimating the risks of failure.

The problem of asymmetric information is more acute for small businesses than for larger ones because of lower information standards and the greater variability of risk. Small and privately owned firms face no legal reporting requirements and are more vulnerable than large firms (Cofie, 2012). Asymmetric information makes it impossible to distinguish accurately good and bad borrowers. The two main problems associated with asymmetric information are adverse selection and moral hazard, which may both affect the quality of the loan (Cofie, 2012). Adverse selection refers to the fact that the probability of default increases with the interest rate while the quality of the borrower pool worsens as the cost of borrowing rises. Small firms are more likely to be rationed because they are seen as particularly risky. Although they might be willing to pay

more to compensate for this additional risk, the bank refuse to raise the interest rate sufficiently to equate supply with demand (April, 2005).

Ackah and Richardson (2011) highlight that moral hazard and adverse selections also make significant contributions in widening the financing gap. Moral hazard refers to a situation in which an agent (the borrower) takes an action that adversely affects the return to the principal (the lender). It occurs if the parties involved have diverging interest and the action taken by the agent cannot be monitored accurately by the principal. Cofie (2012) mentions that a borrower may be tempted to exert less effort or to secretly switch to riskier projects in order to increase his return. Due to a higher probability of default, the return to the bank will be reduced.

Banks can resort to two methods of reducing moral hazard which are making it profitable to tell the truth (for example through the promise of renewed credit in the future) and/or including penalties for low effort levels (for example, collateral which is lost if the firm becomes insolvent). Due to information imperfection and costly control mechanisms, the superior selection criteria based on cash flow projections is thus often abandoned in favor of loan selection according firm size and collateral (Ackah & Richardson, 2011).

2.4.3. Lack of Collateral

April (2005) emphasizes that financial institutions are more likely to approve loans for firms that are able to provide collateral and to those firms that have established long term relationship with lenders. Due to the existence of asymmetric information banks base their lending decisions on

the amount of collateral available. Collateral acts as a screening device and reduces the risk of lending for commercial banks. By pledging his assets, a borrower signals the quality of his project and his intention to repay. In the case of a default, the collateral serves to put the lender in a privileged position with regard to other creditors (Ackah & Richardson, 2011).

Small firms are disadvantaged in this regard, because they lack collateral security and proven credit track record. Therefore, firms with innovative products may be constrained by the lack of access to finance because they may not have collateral security. Furthermore, information asymmetries may prevent financial institutions from seeing the profitability of the SMEs proposal (April, 2005).

2.4.4. Poor financial Management

There are many factors that cause failure of SMEs and poor financial management is one of them. Financial management is a very broad and complex term if dissected to details from whole to part. It entails structures such as planning, organizing, implementing and controlling as vital components of business management (Nieman, 2006). For the SMEs, the most vital part is the start-up capital as a financial need. What is very important is accountability on the part of financial needs of the business once it is funded. An SME advances its being funded in the social cycles by maintaining virtues of social responsiveness as accountability in all aspects of financial management as planning, organizing, implementation or actualization and control. It is therefore worth noting that precise record keeping and updating is very vital at the organization phase if the SME is to be sustainable in its operations.

SMEs with poor financial management are characterized by poor record keeping which results in their imminent failures. Such SMEs on the other hand may experience a lot of rejections on the social spheres where a lot of accountability is compulsory. Financial institutions only grant credit to organizations that convince them beyond reasonable doubt that they have the capacity to manage their affairs in a fair and transparent manner, and this only manifests in good and sound record keeping practices. SMEs grow gradually by being able to have a more expanded financial window from financial institutions to be able to grow their businesses (Arnold, 2007).

2.4.5. High risk perception

Lepolesa (2008) observes that commercial banks tend to impute a high risk to small enterprises and are, therefore, reluctant to extend credit to them. Due to their small size and inherent vulnerability to market fluctuations, the mortality rate of small enterprises is relatively high. These firms are, by their very nature, often relatively young and consequently lack a financial history and a track-record of profitable projects, hence the unwilling of banks to provide loans. In addition, organizational and administrative deficiencies lower the quality of management and a lack of appropriate accounting systems may compromise the accessibility and reliability of information from small firms on their repayment capacity (Nashidengo, 2007). High risk perception may be one of the reasons banks and financial institutions are reluctant to provide loans to SMEs.

In South Africa, the risk perception of SMEs is attributed to the high failure rates. Therefore, it is reasonable for financial institutions to ration finance to SMEs, particularly SMEs who have little or even no credit history (Musaraet al, 2010). Tightening collateral security requirements is one of the ways through which financial institutions attempt to protect themselves against such risks. The need for collateral militates against potentially viable small, emerging enterprises getting finance.

2.5. ACCESS TO FINANCE FOR SMES

Access to finance by the SMEs is the ability of individuals or enterprises to obtain financial services such as insurance, deposit and other risk management services (Nuyoma, 2010). SMEs with limited or no access to financial services are referred to be either under banked or unbanked respectively. It has been proven scientifically through studies that access to finance by the SMEs enhances their growth. A country's Gross Domestic Product increases through intensification of competition as well as a boost for demand of labor. A hindered access to financial services of SMEs stunts their growth when the under resourced businesses have to rely on their own resources which limits their full potential for growth. Different countries exhibit unequal challenges to access of financial services by SMEs depending on measures put in place by countries to finance development programmes as SMEs promoting self-employment at the least economic level (Nashidengo, 2007).

As earlier mentioned, SMEs need to have access to a wide array of financial services. Such financial services transcend just issuance of money or capital to boost or start new businesses.

Included are services as payment instruments, saving facilities, insurance and credit. A well-functioning financial sector promotes growth of SMEs indirectly by the competitive nature of the sector that promotes maintenance of economic stability (Stork, 2010). A secure and authentic financial transaction by the commercial institutions enables effective allocation of funds to productive investments. The growth of SMEs is therefore solely dependent on their ability to access the financial institutions to access their products and services.

2.6. DETERMINING ACCESS TO FINANCIAL SERVICES

Access to financial services by SMEs is a preserve for those who actually have risen beyond cultural, religious or other reasons that may make them not fully utilize finances at their disposal. To differentiate theory and empirical evidence enables determination of measuring financial success (Stork et al, 2004; Hodgetts & Kuratko, 2008). Currently factors used measure accesses to financial services include the percentage of SMEs with a line of credit and the number of SMEs with bank accounts per 1000 SMEs. Some of the discussed determinants of access to finances from finance institutions by entrepreneurs are: -

2.6.1. Entrepreneur Characteristics

According to Irwin and Scott (2010) personal characteristics of a business owner make an impression as to whether there is an ability or likelihood of access to external finance from the bank funding Small and Medium Enterprises. Older owner managers of SMEs tend to be more dependent on retained profits as compared to younger managers who majorly tend to be

dependent on bank overdrafts and loans, credit cards, own savings and family sources (Vos, 2007). There are a record high denial rates and lower loan application rates among female entrepreneurs (Ipinge, 2010). Evidence is further provided by Mc Caffer and Coleman (2007) who asserts that there is undeniable discrimination in women accessing credit from financial institutions since the women are required to give more collateral as compared to men in their quest for financial services.

Explanations given in the literature for differences between men and women entrepreneurs with respect to access to finance can be categorized into discrimination, abilities and preferences, and competition (Harrison & Mason, 2007). As for the demand side, Storey (1994) asserts that higher levels of education provide entrepreneurs with greater confidence in dealing with bankers and other funders when applying for loans.

2.6.2. SME's or firms' characteristics

According to Akoten, (2006) formality, value of assets, business sector, operating period, financial performance and size are all important factors in determining micro and small enterprises' access to finance. Financial institutions are more likely to approve loans to firms that are able to provide collateral and to those firms that have established long term relationships with lenders. Due to the existence of asymmetric information, banks base their lending decisions on the amount of collateral available. Collateral reduces the problem of uncertainty, since the lender can theoretically recover some, or all, of his loan in the event of default. Moreover, the borrowers will find it costly to put valuable collateral if they intend to default with the proceeds

of the loan, because they will lose their collateral. Thus, the collateral requirement can also help to weed out rogues from honest borrowers, leaving only those bona-fide applicants who fully intend to repay the loan.

According to Musamali and Tarus (2013), firm age was found to play a role in firms' access to finance. More specifically, firms that are older were found to have more access to finance. These results were not unexpected because older firms have the network capital generated overtime and also credit history that can be used by lenders to assess their credit worthiness. In contrast, younger firms may lack the necessary connections on the providers of finance and also the historical performance of the firm may be lacking. Klapper et al. (2002), suggest that younger enterprises (those established less than four years), are more reliant on informal financing and far less on bank financing. This is supported by different authors (Quartey, 2003; Cassar, 2004; Storey, 1994). From another angle, the extent to which firm size can impact the availability of finance to the firm was measured by Petersen and Rajan (1994). They argued that as firms grow, they develop a greater ability to enlarge the circle of banks from which they can borrow. They then provided evidence that firms dealing with multiple banks and credit institutions are nearly twice as large as those with only one bank.

Musamali and Tarus (2013) suggested that the reason for the effect of size of the business on the ability to access finance is that larger firms are likely to have collaterals that act as a security in securing finances. The effect of industry classification on the capital structure of Ghanaian SMEs was examined by Abor (2007). The results of the study revealed some differences in the funding preferences of the Ghanaian SMEs across industries. SMEs in the agriculture sector and medical

industries rely more on long-term and short-term debt than their counterparts in manufacturing. Abor (2007) further concluded that short-term credit is more used in wholesale and retail trade sectors compared with manufacturing SMEs, whereas construction, hotel and hospitality, and mining industries appear to depend more on long-term finance and less on short-term debt. Abor (2007) found that SMEs in the agricultural sector exhibit the highest capital structure and asset structure or collateral value, while the wholesale and retail trade industry has the lowest debt ratio and asset structure.

2.6.3. Financial Institution's characteristics

Credit terms considerably influence financial decisions of SME borrowers. Credit terms are conditions under which credit is granted. The conditions involve interest rate, credit limit and loan period. Credit terms control the monthly and total credit amount, maximum time allowed for repayment, discount for cash or early payment, and the amount or rate of late payment penalty (Ledgerwood, 2010). Rate of interest is a key determinant of access to finance as it influences investment. Whenever interest rate rises up, investment will eventually fall, this is because with higher interest rate the possibility of making profit out of investment is very low. Hence, high interest rate reduces the marginal efficiency of capital. On the contrary, bank charges interest to investors out of which certain percentage will be paid to savers as deposit rate. At higher deposit rate savings will be attractive and similarly banks will extend more loans, but investors will reject further loans as interest rises (Sacerdoti, 2005).

Schmidt and Kropp (1987) revealed that the type of financial institution and its policy will often determine the access. What is displayed in form of prescribed minimum loan amounts,

complicate application procedures and give restrictions on credit for specific purpose. Where credit duration, terms of payment, required security and the provisions of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, and they will be denied access.

Lapar and Graham (1988) using secondary data for a sample of 344 bank clients and survey data of 65 banks, 12 respondents in the Philippines estimated separated models of the intensity¹³ of bank credit rationing and the probability of credit rationing. The length of the loan maturity period required by the borrower may also influence the bank's credit rationing behavior. The longer the loan maturity period, the greater the risk of loan recovery due to the riskier nature of long term investments, hence the higher will be the likelihood that the borrower will be credit rationed.

There are four banking institutions in Namibia, namely: First National Bank of Namibia (FNB), Standard Bank of Namibia, Nedbank and Bank Windhoek. Of the four banks, only Bank Windhoek and FNB have separate branches for SMEs in Namibia. During 2007, the FNB SME Business Unit has provided financial support to more than 140 SMEs with loan funding ranging from N\$50 000 to N\$2 million. The estimated number of jobs created by SMEs which benefited from the FNB financial support is over 500. Bank Windhoek has supported over 400 SMEs and disbursed more than N\$80 million. The figure includes the amount which the Development Bank of Namibia (DBN) has made available through the partnership. The other two banks, Standard Bank and Nedbank, have only allocated consultants who are providing financial services to SMEs according to (Nakusera et al.2008).

2.7. SOLUTION TO CHALLENGES OF ACCESS TO FINANCE

Teece, Pisano and Shuen (1997) contend that, experience from the microfinance industry shows that one way to successfully bridge the gap between the demand for and supply of credit is through innovative lending methodologies. Such methodology as emphasized by Freiling (2007) includes a loan analysis that focuses on the prospective client's ability to pay (cash flow). Less emphasis should be placed on collateral. The analysis should be highly standardized, and loan processing times kept to the minimum. The repeat borrowers should be entitled to increasingly larger loans and loan officers should bear full responsibility for the loan throughout its entire life and should be paid performance based salaries. If repayment problems occur, there should be a powerful incentive structure in place for immediate follow-up and appropriate decision-making control mechanisms should be in place and supported by a strong management information system (MIS) and information technology (IT) to assist in the management and administration of the loan portfolio.

In another study, Chiwara (2011) argue that many banks have developed tools, such as creditor scoring models and other sophisticated techniques, to discriminate between high-risk and low-risk borrowers, thus reducing the risk of lending to SMEs. Despite the potential for the above-mentioned methodologies to be effective in addressing the access to finance challenges for SMEs, applying these approaches has failed to provide a clear path to closing the information asymmetry gap, a major reason why SMEs cannot adequately access financial resources (Teece et al., 1997). Therefore, there is a need to find more effective ways to ensure that the information gap between financial institutions and SMEs is eliminated.

In South Africa, Policy debates in the past have failed to close the financial gap between SMEs and providers of financial resources. Various authors have revealed that the access to finance challenges survival in the country (Mass and Herrington, 2006).

2.8. CHAPTER SUMMARY

In this chapter the focus was on defining SMEs and understanding their concepts. An exposition of the measures of growth of SMEs in Namibia, challenges faced by SMEs generally on the financial providers which includes the Commercial banks, government entities and micro lenders. The discussion is mainly done on SME's contribution in the world and few countries in Africa including South Africa, Zambia and Namibia. It has been confirmed by many authors that the SMEs sector is viable vehicle in the economy supported by relevant statistics. Access to finance noted as a main challenge faced by SMEs due to various reasons including the following, higher interest rates charges and higher collaterals. The study proposed an approach that can be used by financial institutions to reduce risk of lending money to SMEs.

CHAPTER 3: METHODOLOGY

3. INTRODUCTION

In this chapter, the various tools needed to gather the relevant information have been listed and the methodology for analyzing the data is explained. The chapter is divided into the following sections. Research design, detailed population from which the study obtained its findings, sampling technique used, research instrument and measures used to collect data. In addition, the procedures undertaken to collect the data and the analytical technique the study used to produce the final results were discussed.

3.1.RESEARCH DESIGN

This research is primarily based on a mixed approach technique, which comprises of the qualitative and quantitative research designs. The quantitative design enabled the researcher to collect data using questionnaires and convert the data into numerical form so that statistical analyses and conclusions. The qualitative design enabled the research to gather data through interviews and focus group discussions with the use of open-ended questions.

According to Creswell (2007) the objective of qualitative research is to purposefully select participants or respondents that will best help the researcher to understand the problem of the question. As the research intends to analyze management issues that entail views and perceptions, the qualitative research approach is found most suitable. Qualitative research is collecting, analyzing, and interpreting data by observing what people do and say. Creswell

(2007) asserts that qualitative research approach makes use of strategies as narratives, ethnographies, biographies, case studies, interviews and observations and description of results communicated using words rather than numbers. Advantages and disadvantages of qualitative design are identifiable.

The mixed research design approach bases its argument on pragmatic knowledge claims which contends that knowledge claims arise out of actions, situations and consequences rather than on antecedent circumstances. The problem becomes prioritized and important than the methods (Sekaran 2008). The mixed methods are used to fully comprehend the problems. It is imperative to have a combination of research methods since they can work in sync with each other. There is proven record of accuracy and improved present ability since numerical data is further explained with narrative data (Patton, 2002). Both, approaches strengths are anticipated by the researchers to outweigh both approaches' weaknesses combined, thereby making it better to understand the complexity of a phenomenon under study (Wiersma, 1995).

Interviews and questionnaires were used to collect qualitative empirical data from financial services providers in the region. The interviews were conducted through face-to-face meetings, email and telephone. In order to ensure accurate capturing of research information questionnaires were distributed to respondents. The completed questionnaires were collected and analyzed to come up with results and recommendations.

3.2.POPULATION OF STUDY

A population is the total collections of elements about which inference are to be made (Cooper and Schindler, 2006). A research frame refers to all elements which information may be gleaned to solve a research problem (Krishnaswamy, Sivakumar& Mathirajan, 2007).

The population for this study covers 3752 SMEs companies registered with the Ministry of Industrialization, Trade and SMEs Development in Khomas Region for 2015. In addition to the SMEs there are 5 commercial banks; 2 Government parastatals and 3 Micro lenders which give funds to SMEs.

3.3.SAMPLE STUDY

According to Creswell (1994), the sample size of a statistical sample is the number of observation that region it. It is denoted by n , a positive integer (natural number). Sampling is the act, process, or technique of selecting a suitable sample, or a representative part of a population for the purpose of determining parameters or characteristics of the whole population (Wiersma, 1995). The latter further explains that sampling methods are classified as either probability or non-probability. In probability samples, each member of the population has a known non-zero probability of being selected. Probability methods include random, systematic and stratified sampling. In non-probability sampling, members are selected from the population in some non-random manner these includes conveniences, judgment, quota sampling (Wiersma, 1995).

Random sampling method was used for this study. The study was conducted 100 out of 3,752 registered SMEs companies, 5 commercial banks (Bank Windhoek, First National Bank of

Namibia (Pty) Ltd, NEDBANK and SME Bank), and 2 parastatals (Development Bank of Namibia and Namibia Development Corporation) and 3 Micro lenders which gives fund to SMEs.

3.4.RESEARCH INSTRUMENTS

The primary data was collected by through use of questionnaires with structured questions. Reasons for using questionnaires for data collections were that; large amount of data can be collected from a large number of people in a short period of time and in a relatively cost effective way. Open-ended interviews with respondents were conducted to discuss questions in depth, comprising mainly closed-ended and few open-ended questions on selected variables. Secondary data was obtained directly from previous literature reviews, books, journals and the internet.

3.5.PROCEDURE

Structured questionnaires and interviews tools for collecting primary data are recommended for the composite of qualitative and quantitative research designs (Shank, 2002). Secondary data collection is recommended for exploratory analysis using the qualitative methods of data collection (Saunders et al., 2003).

The data was collected by use of questionnaires and interviews. A total number of 100 questionnaires were emailed and some were administered one on one to each participant to fill

out and then sent back to the researcher. Nine (9) respondents were administered with face-to-face interviews at various financial provide institution.

Relevant authorization from The University of Namibia, Namibia Business School and Small and Medium Enterprise owners was sought. Appropriate modification was then done on the instrument. This was then followed by the full scale data collection, which was done by administering the questionnaires to entrepreneurs around Khomas region, and this was done in a period of four weeks. Both primary and secondary data were gathered.

3.6.PILOT STUDY

The pilot study was designed to test the questionnaires and interviews. Improvements were made in order to enable reliability and consistency to the questions by 10 respondents. Most questions were close-ended. This was meant to enable speed of completion as well as easy tabulation of answers into the analysis software (Welman et al, 2008; Saunderset al., 2007).

3.7.DATA ANALYSIS

Data analysis, according to Streubert and Carpento (1995), is a description of what was found from the interviews. The data entry process started as soon as questionnaires were collected from the field. The quantitative data was then analyzed using a statistical package of Microsoft Excel to increase the accuracy of the results. The data obtained and collected from primary sources as respondents were analyzed by use of descriptive statistics. Frequencies, tendencies

and percentages were used to analyze the data. The primary data collected was transcribed, coded and categorized into themes.

The purpose of using descriptive statistics was to enable the researcher to describe what the data showed on graphic analysis. For example, 75% of the respondents agreed that lack of finance was the primary challenge that hampered the growth of their enterprises. Graphs, charts and tables were used to present quantitative data.

Qualitative data was categorized and sorted into themes or patterns, ideas, concepts or phrases in order to attach meaning and significance to the findings. The narrative analysis technique was used to analyze complex textual descriptions of data that had been gathered from secondary sources and from open-ended questions.

3.8.RESEARCH ETHICS

Throughout the process of conducting this study, efforts were made to ensure that the study met the procedures for ethical conduct. Complete discretion was maintained about the information obtained from the SMEs and any other involved institutions and individuals. Respect for intellectual property is deemed very important and thus, the study only used information that were granted permission to and acknowledged all the sources of contribution. Last but not least, a plagiarism free study is the research endeavor. The study will keep the data in the locked cabinet in her office and will be the only one who will have access to the data and before later the researcher will then destroy the data by shredding and burning it.

3.9.CHAPTER SUMMARY

Chapter Three focused on the research methodology that was employed in this study. The mixed method approach comprising qualitative and quantitative research designs was discussed. The population and sample of the study were clearly indicated. The chapter discussed instruments that were used to collect primary and secondary data. Interviews and questionnaires were used to collect primary data. Secondary data was extracted from books, journal articles, research reports and pamphlets. The research procedure that was followed in order to execute the study was outlined. Data analysis techniques that were used to analyze the data were also highlighted.

CHAPTER 4: DATA ANALYSIS, DISCUSSIONS OF FINDINGS

4. INTRODUCTION

This chapter is devoted to the presentation, analysis and discussion of the results. Data is presented in figures including tables, graphs and descriptive narrations. Mainly, the results reveal the general characteristics of SMEs in the Khomas region, and perceptions of organizations supporting SMEs in Namibia, namely the Ministry of Trade and Industry, Namibia Development Bank, the four Commercial Banks and the Municipality of Namibia (Ministry of Trade and Industry, 2010).

The analysis is guided by the Republic of Namibia: Policy and Programme on Small Business Development, January 1997 definition of SMEs believed to cover the most disadvantaged small enterprises in the country.

4.1.OBJECTIVE OF THE STUDY

Despite the importance of the SME sector in terms of economic growth and employment, Namibia's small-scale entrepreneur's access to finance remains one of the greatest challenges for SMEs in Namibia. The objectives of this study are to: -

1. To explore the challenges of accessing finance from different financial services providers by SMEs in the Khomas region.
2. To explore the impacts of the challenges faced by SMEs owners on their ability to start up, grow and survive.

3. To recommend solutions in improving access to financial services providers in Namibia.

4.2.DEMOGRAPHIC

The research instrument (questionnaire) has its first section exhaustively depicting information and results presented about the general characteristics of SMEs in the Khomas region. A total of 20 SMEs were sampled and the results presented hereunder.

4.2.1. Gender

Data was collected from 86 owners/managers of small and medium sized firms out of a sample size of 170 SMEs and 5 commercial banks (Bank Windhoek, First National Bank of Namibia (Pty) Ltd, NEDBANK and SME Bank), 2 parastatals (Development Bank of Namibia and Namibia Development Corporation) and 3 Micro lenders which gives fund to SMEs located in the Khomas region. These owners/managers and their businesses were randomly selected from the register of the Ministry of Trade and Industry-Namibia. A response rate of 50.58% was achieved. Those who chose not to participate scored out their inability to participate to be on their tight schedule and their history of non-cooperation to matters research surveys. All the survey respondents were located in Khomas region.

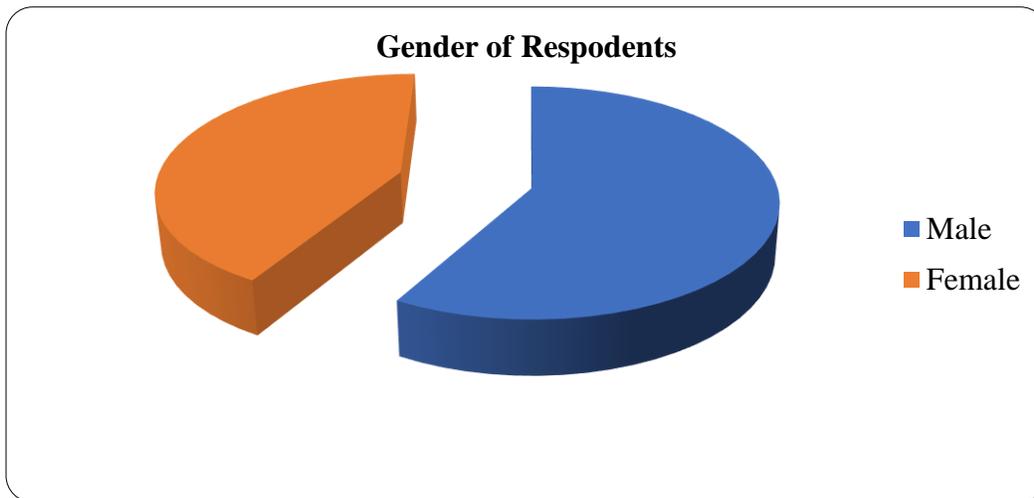
Figure 4.1: Gender of respondents

Gender	Frequency	Percentage (%)
Male	58	67.44
Female	28	32.55
Total	86	100

(Researcher, 2016)

Table 4.1 after indicates that 67% of the SMEs engaged in the study were male entrepreneurs. The remaining 32% were female owned SMEs. The results show that there are more male than female active in the informal. As is the case internationally, there is a gender dimension to SMEs operations in Namibia. The cliché that more women are more active in the informal sector than the male gender in developing countries is untrue for Namibia. But however, According to Norval and Namoya (1992) also reinforced this finding.

Figure 4.2 Gender of the respondents

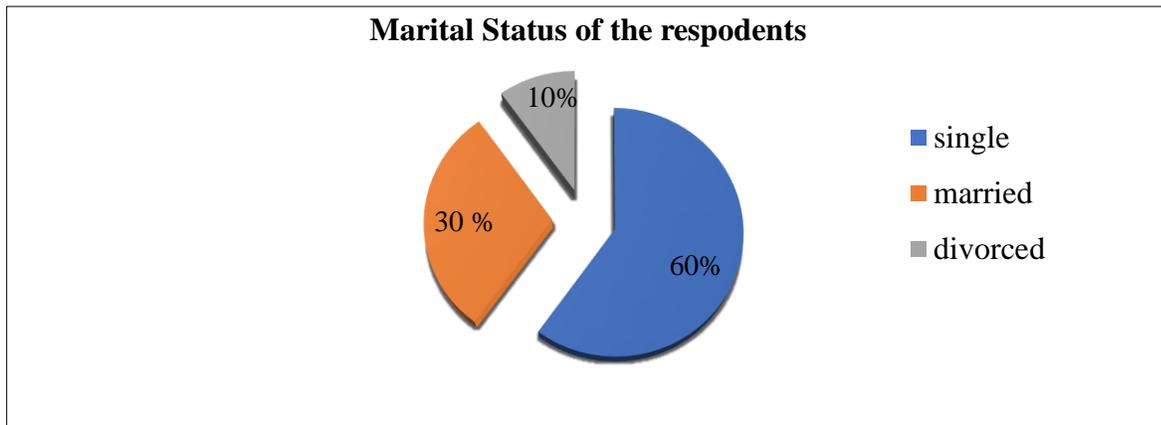


(Researcher, 2016)

4.2.2. Marital status

The results as shown indicate that, of the 86 respondents interviewed, 60% were single, 10% were divorced and 30% were married.

Figure 4.3 Marital statuses of the respondents



(Researcher, 2016)

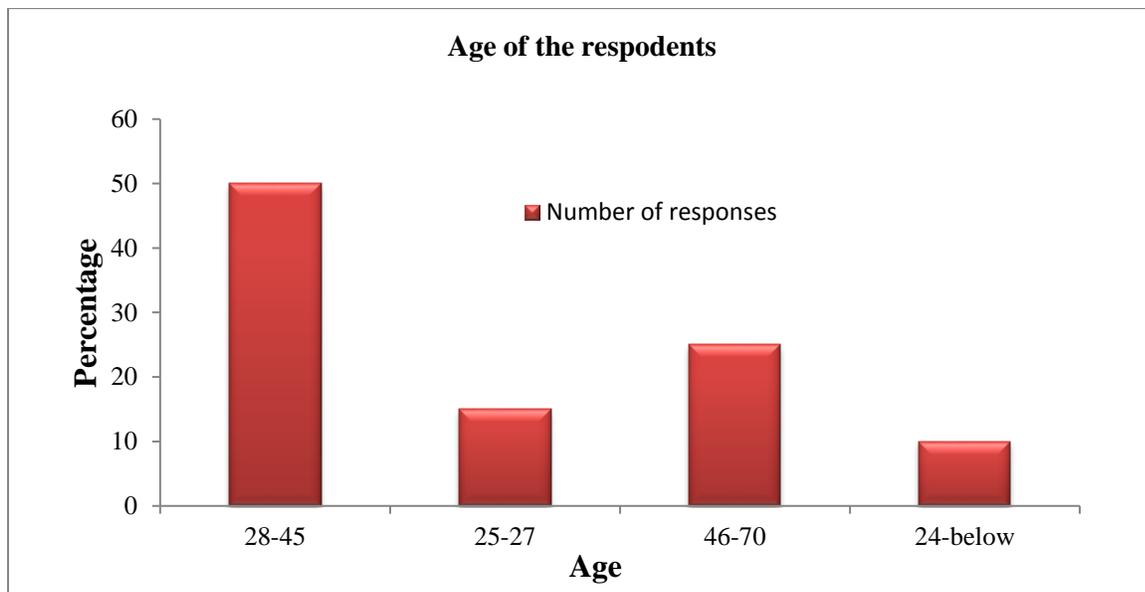
Pastrapa and Apostolopoulos (2009) indicated that married people are more likely to get consumer and mortgage loan than unmarried persons because married people have greater needs. This was the same case for this study as it indicated that 60% of the married people have access to loans.

4.2.3. Age

Figure 4.4 below clearly shows that most of the respondents at 50% involved in the study were between 28 and 45 years of age, whilst the least were in the age category of below 24 years with 20%. People below the age of 24 are the least owners of SMEs with only 10%. Less young

people are involved in SMEs. The results of the binary logistics model indicate that SMEs run by entrepreneurs above the age 46 years is currently at 25%. According to the life cycle hypothesis, the decision to get loan is positively correlated with the age. Younger persons are more likely to borrow than the older persons because of the fact that older persons have low income expectations and they avoid risk.

Figure 4.4 Age of respondents



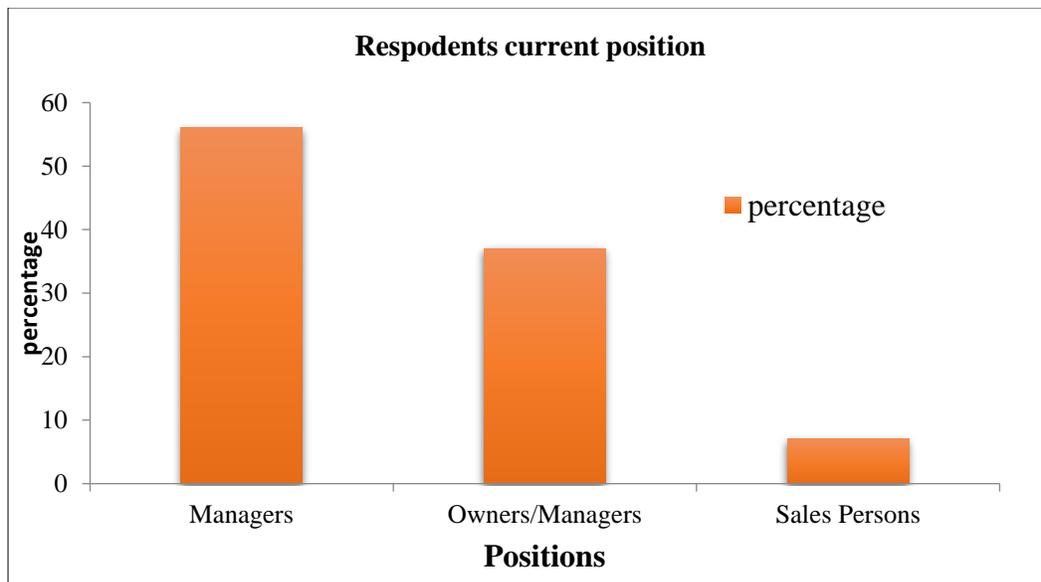
(Researcher, 2016)

4.3.SMES AND EMPLOYMENT

4.3.1. Respondents' current Position

About 56% of the survey respondents were managers while 37% and 7% of the respondents were owners/managers and sales persons respectively. This was attributed to their commitment of the study since they claimed responsibility, and were in custody of all information that was deemed confidential by the SMEs.

Figure 4.5 Respondents current position



(Researcher, 2016)

4.3.2. Range of employees in SMEs

According to the data presented in about 38.3% of business surveyed had between 1 to 10 employees while 37% had less from 11 to 20 employees than 13% had 21 to 30 employees. The remaining 9% was for those that had more than 31 employees.

Figure 4.6 Number of employees employed by SMEs

Range of number of employees	Frequency	Percentage
1-10	33	38.3
11-20	32	37.2
21-30	13	15.1
31 and Above	8	9.3
Total	86	100

(Researcher, 2016)

4.3.3. Respondents' years of work experience and business types

In terms of years of experience, 62% of the respondents had attained 1 to 5 years of work experience while 18.6% had attained 5 to 10 years of experience. The rest 15.1% had less than 1 year and more than 10 years of experience stands at 3.49%

Figure 4.7: Respondent's year of experience.

Years of Experience	Frequency	Percentage (%)
Less than one years	13	15.11
1-5 Years	54	62.8
5-10 Years	16	18.6
More than 10 Years	3	3.49
Total	86	100

(Researcher, 2016)

The age of business was deemed significant since it revealed the extent to which various business firms had experienced the financial institutions as well as general operational challenges and opportunities through time.

Figure 4.8: Distribution of business types

Business Activity	Frequency	Percentage
Construction	11	12.8
Manufacturing	21	24.4
Services	27	31.4
Agriculture	1	1.16
Trade	17	19.8
Others	6	6.9
Total	86	100

(Researcher, 2016)

The 31 % of the respondent as shown in figure 4.8 above indicated that they operate through services industry like Restaurant, transportation, and other services industry. 24 % of the respondents operate through manufacturing and 19 % are operating on trade.

4.3.4 Level of education and access to credit

This study has proved that access to bank credit is positively and significantly influenced by the respondent's education level. This is proved in Figure 4.9 were SME owners with no education were more likely to have no access to credit. Among the SME owners that responded, the highest access to bank credit was for those with university degrees (40.69%) and those with a certificate/diploma (17.44%). Access to credit by the masters' degree owners was, however, the lowest with only 6.98%. This was noted to be because the most master holders have started their SMEs with their own capital thus they hardly apply for loans. For the poor, those with no schooling or other form of qualification their access to finance level is currently at 17.44%.

Figure 4.9: Respondents level of education

Level of Education	Frequency	Percentage (%)
Diploma	30	34.88
Degree	35	40.69
Masters and Above	6	6.98
Others	15	17.44
Total	86	100

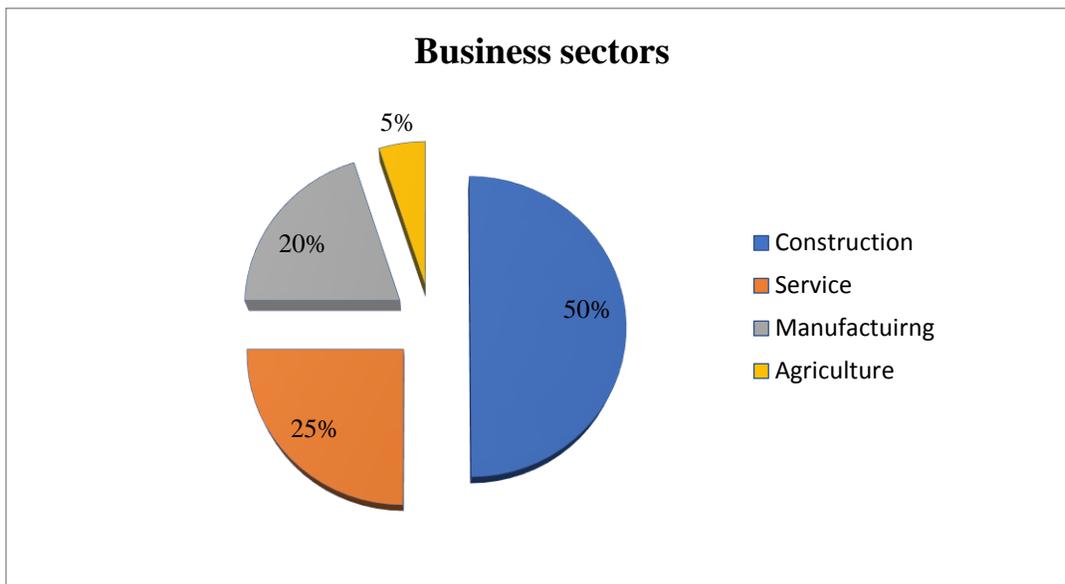
(Researcher, 2016)

The level of education of the respondent was sought in order to establish the level of literacy of entrepreneurs. Hall (2005) suggested that the level of education and the attendance of management training course is also important aspect in terms of small firm survival.

4.4.TYPES OF BUSINESS

4.4.1. Type of business owned

Figure 4.10: Types of business



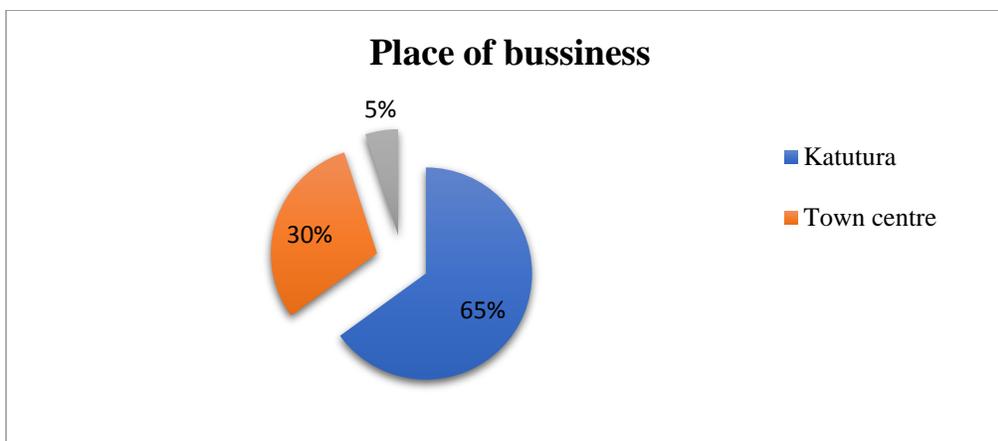
(Researcher, 2016)

Figure 4.10 above shows that, 50% of SMEs in the Khomas region are involved in Construction, next on the list is the services at 25% being in the service industry. 20% indicated that they were in manufacturing and 5% indicated being in the agriculture industry.

4.4.2. Place of Business

The Figure 4.11 shows that the majority of SMEs at 65% are operating at Katutura location, while 30% indicated that they were operating from town center and only 5% showed that they were operating in others area. Although a lot of businesses are operating at Katutura many of them are only bars. The competition is very high due to many competitors and survival in the industry is therefore difficult.

Figure 4.11: Places of business



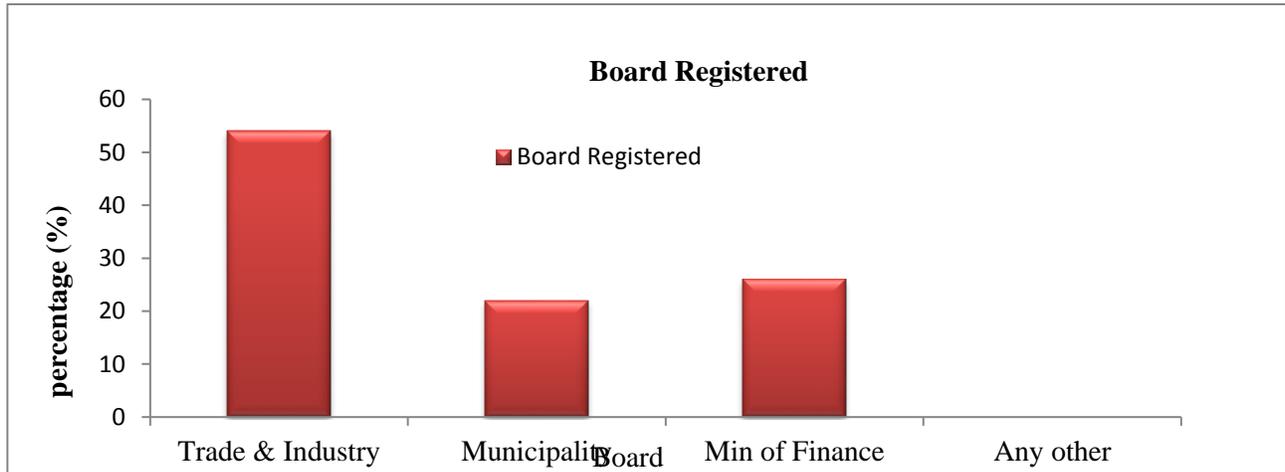
(Researcher, 2016)

4.4.3. Registration of business

As shown in Figure 4.12 next page, the study revealed that 54% of SMEs are registered with the Ministry of Trade and Industry, 26% of the SMEs are registered with the Municipality of Windhoek and 22% are registered with the Ministry of Finance.

The overwhelming majority of 54 % indicated that their enterprises were registered with the Ministry of Industrialization, Trade and SMEs development. Meaning those are the companies specified as SMEs operators and can be assisted with the fund availability from various funds services providers.

Figure 4.12: Registration of business



(Researcher, 2016)

4.4.4. Source of Capital at start of Business

The source of capital for the businesses was determined 63% of the SMEs used their savings to kick-start their operations. This illustrates the distribution of the sources of capital by the SMEs. 12% received assistance from their family and another 8% received loans from financial institutions. The remaining 3% borrowed from friends on the next page

Figure 4.12: Source of capital to start SMEs

Category	Responses	Percentage
Own savings	63	73
Family assistance	12	13.9
Loans from institution	8	9.3
Borrowed from Friends	3	3.49
Total	86	100

(Researcher, 2016)

4.4.5. Availability of funds

This was to determine if the SMEs were aware of any sources of finance available and how such access was granted. Why they did not use the lending facility available to get that financial assistance from them was also determined. The result of the study indicated that 65% did not apply due to higher interest rate, 17% indicated lack of collateral, while 11% goes to loan application procedures too complicated and 1.1% of these were complaining that banks are too far.

Figure 4.13: Reasons for not loan application

Reason not for applied loans	Frequency	Percentage (%)
Interest rates too high	56	65
Lack of collateral	15	17
Loan procedures too complicated	10	11
Banks too far	5	1.16
Total	86	100

(Researcher, 2016)

4.5. CHALLENGES FACING SMES BUSINESS

There is an objective of finding out the major challenges affecting SMEs in the Khomas region. The results showed that the major challenge was lack of finance at 39%. However, 17% recorded that there was lack of management training. Another challenge was that there was the lack of credit for investment at 20%. There was lack of marketing information at 15% and 5.8% to the unmentioned reasons.

Table 4.14 Challenges facing SMEs

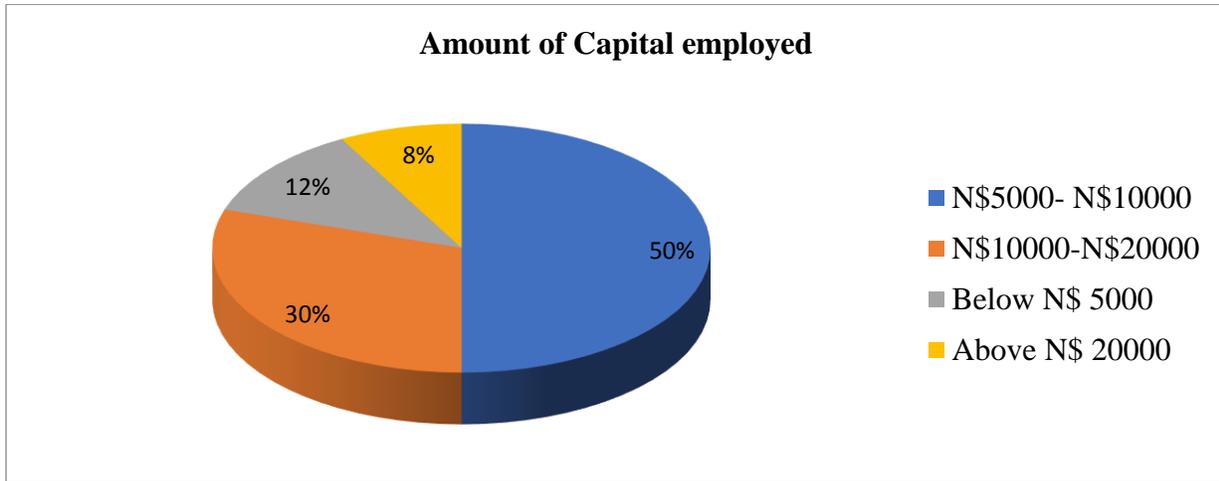
Challenges facing SMEs	Frequency	Percentages
Lack of collateral	34	39
High administrative cost of small scale lending	20	23
Poor information management	15	17
High risk perceptive	10	11
Others	5	5.8

(Researcher, 2016)

The SMEs feel that they are not aware of available financial assistance nearly everyone agreed that the information on the financial assistance schemes was not readily available. Further, the interviews were asked to specify the adequate information required by banks to process loans for SMEs. They indicated that banks largely require SMEs to have a sound of financial transaction with a particular bank, collateral, documentation and an application in order to process their applications for a loan.

4.6.CAPITAL EMPLOYED

Figure 4.15: Amount of capital employed



(Researcher, 2016)

4.7.

Figure above indicates that the level of capital employed by most businesses (50%) was between N\$5000 and N\$10 000. About 30 percent of SMEs had employed between N\$ 10 000 and N\$ 20 000 in their business operations. An additional 12% of the SMEs had invested below N\$5000. The level of capitalization for the 8% was above N\$ 20 000.

4.8.SMES FINANCIAL FACILITY SUPPORT

SMEs financial support is a combination of services offered by bank facilities in relation to growth and development of businesses. The findings were as follows: -

4.8.1. Service provided by Development Bank of Namibia

The Development Bank of Namibia (DBN) was established in 2004. Its mission was to contribute to the economic growth and social development of Namibia and the welfare of the Namibian people through the provision of development funding. Support can take the form of lines of credit managed by intermediate financial institutions like commercial banks, direct lending and provision of working capital. This is as shown in table figure 4.16 below: -

Figure 4.16: Summary of key data for DBN SMEs support

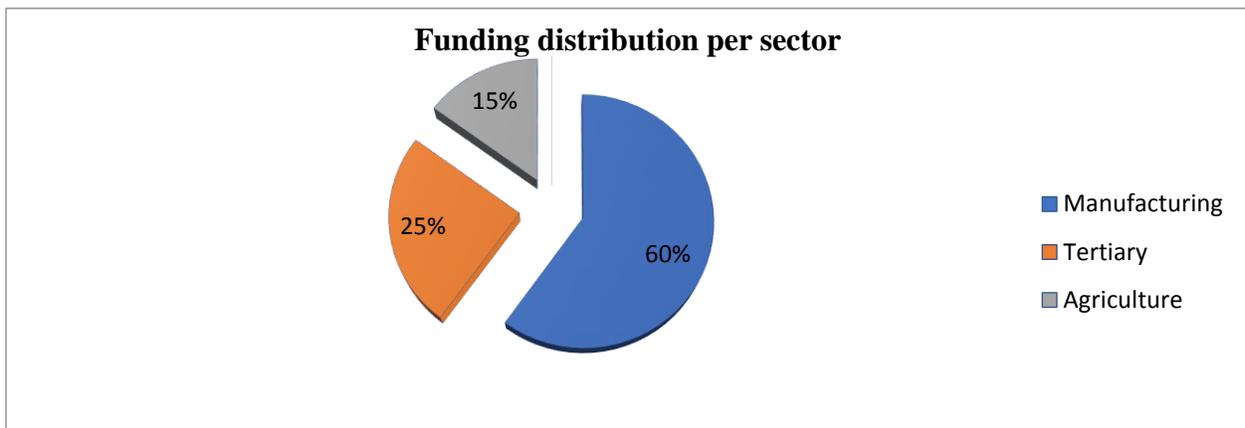
Area of operation	Nation-wide (Urban/ peri-urban 75%, rural 25%)
Loan Amount	Minimum: N\$ 5000 Maximum: N\$ 100000
Interest rate	Determined on a project by project basis
Processing of loan (from submission to disbursement)	5 weeks
Repayment period	Maximum 5 years

Security	<ul style="list-style-type: none"> • Clients should provide acceptable security to the money borrowed • All assets financed by SDF are automatically used as security • Collateral is determined on a project by project basis
Training requirement	Provide them where it's needed

(Researcher, 2016)

Additional support to SMEs clients included training, mentoring and evaluation. This entails training in business and financial management, and support through mentorship programmes. Clients contribute 2% of the total.

Table 4.17: Distribution of funds per sector



(Researcher, 2016)

The figure 4.17 above shows results from the study. DBN funded almost 60% of the manufacturing sector especially at the value-added and construction products, 25% that makes the tertiary sector and 15% that makes the agricultural sector.

4.8.2. First National Bank (FNB)

The First National Bank was involved in several schemes in collaboration with local and international NGOs and the Namibia government. The bank had plans to become involved in five different schemes offering loans to SMEs under varying conditions and criteria. FNB does not finance Agriculture or pure farming business, cash-loans or speculative business. They only financed the manufacturing, service, trading/ retail, real estate, professionals and consultancy. The Adult Skills Development for Self-Employment (ASDSE) scheme was being run in collaboration with the Ministry of Basic Education and Culture (MBEC) and Italian NGO Comitato Internazionale per lo Sviluppo dei Popoli (CISP).

- The Development Fund of Namibia (DFN);
- A new scheme with the Institute for Management and Leadership Training (IMLT);
- A scheme with the Northern Namibia Chamber of Commerce and Industry (NNRCCI);
- Evangelical Lutheran Church in Namibia (ELCIN) and Finnida; and
- The Government Credit Guarantee Fund.

Figure 4.18 Summary of key data for FNB SMEs support

Area of operation	Nation-wide
Loan Amount	Average of N\$1000 in 1 year
Interest rate	Determined on a project by project basis
Processing of loan from submission to disbursement	8 weeks (for first loan)
Repayment period	Term is from 12 to 20 months

Security	<ul style="list-style-type: none"> • Clients should provide financial projections in their business plan • Financial statement (6-month latest) • All assets financed by SDF are automatically used as security • Collateral is determined on a project with a value of at least 50% of the loan
Training requirement	<ul style="list-style-type: none"> • FNB does not give training to SMEs due to high cost and assume that they have already the necessary skills

(Researcher, 2016)

4.8.3. Standard Bank of Namibia (SBN)

The SBN Small and Medium Enterprise pilot scheme effectively started at the end of 1996. Ten accounts were initially decided upon for the purpose of the scheme, to serve mainly the following market mix:

- Manufacturing (textiles/ clothing) enterprises;
- Carpentry enterprises;
- Small take-away shops or mobile shops; and
- Bakeries.

Figure 4.19: Summary of key data for SBN SMEs support

Area of operation	Nation-wide
Loan Amount	Minimum: N\$ 1000 Maximum: N\$ 20000
Interest rate	Determined on a project by project and prime rate applied
Repayment period	Loans should be repaid within 12 months but can also be negotiated and a moratorium capital considered.
Security	<ul style="list-style-type: none"> • No collateral or security is required from customers, even though the bank would prefer to request some where available. • Financial statement 6 month late
Training requirement	SBN, do provide financial management training to SEs and the reason is in order to educate them on how to use their funds property to the best way to conduct their business current account so that they don't for deficit and normal invite them to discussion forum.

(Researcher, 2016)

4.8.4. Bank Windhoek

The bank assists SMEs through its Emerging Small and Medium Enterprises (ESME) branch, offering a comprehensive range of products tailored to individual business needs by assistance through mentoring and training programmes for entrepreneurs. These programmes guided efficient and effective management of finances of SMEs business as illustrated in table next page.

Figure 4.20: Summary of Key data for Bank Windhoek SMEs support

Area of operation	Nation-wide
Loan Amount	Minimum: N\$ 1000 Maximum: N\$ 20000
Interest rate	Determined on a project by project and applied above the prime rate
Repayment period	Loans set in accordance with the business plan and cash-flow projection, 2 years on average.
Security	<ul style="list-style-type: none"> • No collateral or security is required from customers, even though the bank • Financial projections for at least 12 months
Sectors	Manufacturing, Trade, Services and others
Training requirement	<ul style="list-style-type: none"> • Training in business management, cost accounting, budgeting, marketing and compiling a business plan. • Financial assistance based on the business plan compiled. • Business advice during the running time of the loan.

(Researcher, 2016)

4.8.5. Nedbank

According to the Nedbank employed Research Specialist respondent, the institution had no special lending facility for SMEs. This meant that all the loans business borrowers were treated equally. It used Bank lending policy that considers all the 5C's of credit lending criteria. The collateral played a big role in approving loans for business plus loan repayment affordability. Nedbank was not providing financial management training and all sectors were financed

depending on viability of the business proposal. Nedbank loan- Minimum: N\$1,000, Maximum: N\$3 Million.

4.8.6. The SME Bank of Namibia

The bank was formed to take the place of Small Business Credit Guarantee Trust (SBCGT) upon its dissolution and transformation to a fully-fledged Commercial Banking Institution. The Bank provides special attention to projects of Small and Medium Size Enterprises (SMEs), and those catering to Rural Communities, Micro Enterprises and Previously Disadvantaged Individuals (PDIs). SME Bank has a full Commercial Banking License and it thus offers banking services to individuals and companies that are not necessarily SMEs, through Personal Banking (Retail), Corporate Banking, and Treasury and Investment Management.

Figure 4.21: Summary of key data for SME bank of Namibia.

Area of operation	Nation-wide
Loan Amount	Minimum: N\$ 1000 Maximum: N\$ 200 000
Interest rate	Determined on a project by project and applied on the prime rate
Repayment period	Loans set in accordance with the business plan and cash-flow projection, 2 years on average
Security	<ul style="list-style-type: none"> No collateral or security is required from customers, even though the bank

	<ul style="list-style-type: none"> Financial projections for at least 12 months
Sectors	<ul style="list-style-type: none"> Manufacturing, Trade, Services and others

(Researcher, 2016)

4.8.7. Commercial Bank of Namibia (CBN)

The CBN offers its clientele a wide range of products, ranging from personal loans and overdrafts to home loans and business loans at market-related interest rates, depending on risk. In accordance with the "Golden Banking Rule", these loans are partly or fully covered by collateral depending on the risk. Apart from its common banking activities the CBN participates in credit schemes for SMEs funded by international donors and the Namibian government. These programmes guided efficient and effective management of finances of SMEs business as illustrated in table 4.4.7below: -

Figure 4.22: Summary of key data for Commercial Bank of Namibia

Area of operation	Nation-wide (100% Urban)
Loan Amount	Minimum: N\$ 1,070 Maximum: N\$ 7,000
Interest rate	25% fixed
Repayment period	Loans set in accordance with the business plan and cash-flow projection, 2 years on average
Security	<ul style="list-style-type: none"> 20% of the loan amount deposited
Sectors	<ul style="list-style-type: none"> Manufacturing, Trade, Services and excluding alcohol –related businesses

(Researcher, 2016)

4.9.DISCUSSION AND INTERPRETATION OF THE RESULTS

The chapter illustrated all the major findings as shown by analysis of the data with the use of graphical displays and tables that sought to answer the research questions. The sections of this chapter summarized the findings of the study. The sections provided interpretations and discussion of the results presented in the chapter on some of the research questions in relation to the research objectives.

SMEs with higher employment size were also more likely to access credit from formal financial institutions with SMEs having more than 6 employees at 7 more likely to access credit from formal financial institutions compared to SMEs that had 1-2 employees. The attitude of SME operators or managers towards lending procedures and loan repayment periods were also found to significantly affect their decision to apply for loan from formal financial institutions.

On the challenges affecting to finance in SMEs, Respondent indicated that they are not aware of financial assistance schemes availability, while the other one say that the processing of a loan application approval by financial institutions is long and tedious. Collateral requirements have big impact on the SMEs and there are high interest rates charged by financial institutions. Some indicated that they are not familiar with the required bank procedures for loan application from the financial providers and unable to prepare Business Plan. Number of them respond that there are complicated procedures required in applying and there are so many documents required when applying for loans from financial institutions.

Taking the findings, the study concluded that the major source of startup finance and also working capital was from own savings. The major source of credit for startup on the other hand was from family and friends followed by microfinance and debt equity. The major source of credit for working capital was from informal financial institutions. Age of the entrepreneur, educational level of the entrepreneur, possession of fixed asset, employment size of SMEs, perceptions about lending procedure and loan repayment period had statistically significant effects on access to credit from formal financial institutions. In contrast gender of the entrepreneur, firm age, sector and perception about interest rate had no significant effect on SMEs' access to credit from formal financial institutions.

4.9.1. Business Registration

Most of the SME's showed that they were officially registered businesses by various authorities. The study revealed that 54% of the SMEs were registered with the Ministry of Trade and Industry. This showed that a considerable percentage of the SMEs were eligible for loans and other financial services from the financial institutions. 26% of the SMEs were registered with the Municipality of Windhoek and 22% recorded being registered with the Ministry of Finance. Business registration was a prerequisite for access to capital and loans for SMEs in Namibia as a guideline or directive on legality of businesses. Registration also acted as a guarantee for financial institutions as to which SME to grant financial service and which one not to. The results of analysis also showed that majority of SMEs at 65% were operating at Katutura location while 30% indicated that they were operating from town center. Only 5% showed that they are operating in any others areas. The availability and accessibility of the SMEs to the financial

institutions was therefore an advantage as far as business development through access to loans and other financial services was concerned.

4.9.2. Capital Structure at the start of Business

The findings indicated that 54% of the SMEs used their own savings to kick-start their operations and 35% received assistance from their family and another 6% who received loans from institutions. The source of finance at business commencement was determined. The findings concurred with Nieman (2006) who found out that gaining financial support was one of most challenging difficulties experienced by SME's. This explained why most of the SMEs in the Khomas region used their savings to kick-start their businesses.

4.9.3. Financial Institutions

The study revealed that commercial banks in Windhoek were providing an avenue for assisting SMEs. It is also clear that the SMEs were aware of such assistance. However, the predicament came in the procedure of qualification for financial assistance. The funds were available, but were not easily accessible. It was shown that commercial banks started offering such a facility well before the year 1995. Meanwhile that had not helped the course of SMEs, because they did not have easy access to the funds since most of them did not have bankable business plans, neither did they have collateral security, nor any form of insurance cover (MTI, 2006). The findings also indicated that SMEs used various approaches for commercial banks seeking

business loan, bank overdrafts, and property finance. This assertion has been accentuated by the NPC (2003).

In 2005, the DBN was established by an act of parliament by the Namibian Government to accelerate economic development and growth of the business sector. The DBN as at 31 December 2009 was 100% Government funded. Within the mandate of the DBN, SME initiatives were catered for under the SDF (Special Development Fund) facility. During the year 2009, some private SME financiers had seen the need and opportunity to enter the SMEs market. In August 2009, the Financial Systems Development (FIDES) Bank Namibia Ltd secured a provisional banking license from BON. It now had up to six months to set up its operations and fully comply with the BON conditions precedent prior to granting the full banking license. The FIDES Bank Namibia Ltd was the first micro finance bank in the country.

Therefore, all the commercial banks, private sectors and government were in partnerships to provide funds and make financial services easy to access for SMEs. The banking industry and private sector in general needed an environment, which was to enable them operate and develop to their fullest potential and to help in making the country a better place for all to live in.

4.9.4. Ministry of Industrialization, Trade and SME Development

SMEs registered with the Ministry of Industrialization, Trade and SME Development by lodging an application and paying a once-off payment as membership fee. However, it was worrying that the procedure was rather more voluntary and relaxed. It was also found out that the Ministry of

Trade and Industry (MTI) had SMEs policy in place, but the policy was not known by the SMEs. This showed that the MTI did not have vigorous strategies to motivate SMEs to register and participate in some of their forums.

4.10. IMPLICATIONS ON THE CHALLENGES OF ACCESS TO FINANCES FOR SMES

Findings from literature review revealed that lack of planning is a very crucial measure for SMEs management and it was lacking in most SMEs. At the inception of SMEs, there was need for sound planning. Planning is defined as the design of a desired future and effective ways of bringing it about and as examining the future and drawing up a plan of action (Acharya& Richardson, 2009).Nieman (2006) asserts that planning is a vital part in SMEs management and that it assists an entrepreneur identify the targets of a business venture and aids in formulating suitable courses of action towards achieving such goals. He further states the importance of a business plan and a budget citing the place of the two in sustaining the business from early ‘mortality’.

According to Smit et al. (2007) no SME or business can exist without sound management. Proper and sound management is a prerequisite for SMEs future existence. For efficiency and effectiveness in management functions discharge, a certain level of managerial skills is a necessity. The study findings point out poor financial management as a prime factor for failure of SMEs. Financial management as a broad term entails planning, organizing, activating and control and is a prime point in business management and development. An emerging business or SME requires capital. This calls for record keeping which need to be meticulously recorded for

accountability measures. This would guarantee SMEs further funding for expansion and growth in the future.

Growth of SMEs on the other hand exerts intense pressure on available resources and this makes them remain with only a single option of acquiring more from the financial institutions. This may land them into severe cash flow problems which lead to their failure. Cash flow problems inhibit SMEs from growing to their fullest potential due to their inability to acquire the prerequisite resources (Mienie, 2009). Primary research findings revealed that financial management as a cause of failure was as a result of lack of management skills. The SMEs were run from poor background of either formal or informal training. The respondents indicated that lack of management skills is a big source of failure for most SMEs. The respondents therefore, recommended trainings of the SMEs managers, supervisors for empowerment on managerial skills to overcome such challenges facing the sector. More financial education and financial support in equal measure were found vital for sustainability of SMEs.

4.11. CHAPTER SUMMARY

The chapter presented, analyzed and interpreted data collected in the study. Charts, tables and graphs were used to analyze of the data. The study revealed that access to finance as the challenges to SMEs in Khomas region. Lastly, the research looked at the insights from the interviews with respondents from the Institutions dealing with SMEs in Namibia. Chapter 5 focuses on summary, conclusion and recommendations of the study.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5. INTRODUCTION

Chapter five presents the summary of the study, conclusions on the findings of the study and the recommendations aimed to the solutions in improving access to financial services providers in Namibia. This chapter is divided into the following sections: overview of thesis and primary research findings, conclusions of the findings, recommendations, contribution to knowledge and chapter summary.

5.1. OVERVIEW OF THESIS AND PRIMARY RESEARCH FINDINGS

This thesis began with an elaboration of the roles of financial institutions in general and to the SMEs in particular. The research unearthed that the products from financial institutions to the SMEs play a crucial role as an element of financial institutions development. Thus, their sustainability largely depends on the capacity of financial institutions to mobilize resources from least secured hence low valued to the highest secured hence highest valued SMEs. This is exhibited in the ability of the SMEs to display collaterals or other securities when securing financial products from the financial institutions.

The literature reviewed was hinged on the theoretical realization and recognition and empirical evidence of the role of financial institutions in the SMEs growth and development. The review highlighted the part played by financial institutions, particularly the banks and Microfinance Institutions (MFIs) in the SMEs development and growth for their sustainability.

With regard to the financial institutions as banks, the reviewed literature revealed that they have far reaching roles in ameliorating information flow problems and monitoring investments, inter-temporal smoothing of risk, corporate governance, and financing working capital and investment requirements.

The reviewed literature further reveals the nature and importance of SMEs in economic development through aspects as Gross Domestic Product growth and employment creation. The revelation is an array of definitions to SMEs across nations and business categories within the SMEs sector. With regards to definition it was pointed out that there is no single demarcation line to categorize enterprises as micro, small, medium and large. Considering the existence and thriving of the SMEs in different countries and nations SMEs play important role in its economic activities. In the Khomas region, their role is of more importance above the obvious one of aiding towards the achievement of sustainable economic development. The literature review also revealed the growth indicators of the SMEs to be hinged on the measurable indicator as sales as the best measure of determination.

Empirical evidence revealed that despite the limitedness of financial institutions in their mandate of giving life to SMEs, they potentially shape key aspects of firm dynamics, such as the sizes of SMEs and growth and resultant economic growth. Moreover, the empirical evidence displayed non-adherence and non-focus on access to financial services from the financial institutions as a possible challenge SMEs experience. The financing role that would enable studying of such aspects of financial challenges that come with such roles appeared to be unknown. In the context

of Namibia especially in the Khomas region, there is currently no comprehensively conducted study that can offer reliable examination of financial institutions towards SMEs growth. The gap in literature gave rise to the research on analysis of access to financial services as a source of failure for SMEs in the Khomas region of Namibia.

On the quest for the solution to the problem and research philosophy, a research method based on quantitative, qualitative or mixed approach was arrived at. The thesis examined the three common research approaches features. In general, it was noted that the use of a single method in assessing the phenomenon was likely to yield limited outcome. The study therefore, combined both qualitative and quantitative research approaches to get the benefit of a mixed method approach. While the quantitative aspects were survey and documentary analysis (quantitative/qualitative data) the qualitative aspect employed in-depth interviews with banks and MFIs managers/officials. In the quest for soliciting data, semi-structured questionnaire was distributed among randomly selected SMEs in Khomas region. Then study recorded a response rate of 87.6%. The survey instrument contained both open and close ended questions to take care of disparities in availability among the respondents.

On gender, the results showed that the men were actively engaged in SMEs business in formal sector and more women in the informal sector of SMEs. Although the Ministry of Trade and Industry (MTI) and DBN encourage manufacturing activities, the majority of SMEs engaged in construction due to lack of finances. Some participated in rendering services through tendering process participations. Therefore, all the commercial banks, private sectors and governments were in partnerships for provision of funds and ease of conditions for SMEs to be able to get

access to financial services. The banking industry and private sector in general needed an environment which was to enable them operate and develop to their fullest potential and spur economic growth of SMEs hence employment creation and GDP growth.

Most of the SMEs indicated obtaining greatest support from commercial banks loans. Nevertheless, they recorded having other financial services as entrepreneurship studies for effective book keeping, manpower development services, business control and monitoring and by providing other relevant information with regards to the SME businesses. They also noted that, SMEs reverted to the government as their lender of last resort, since they did not have easy access to bank loans. The financial institutions have shown an encouraging growth in its increase and outreach. The number of borrowers and the average loan size has increased remarkably over years. The poor creditworthiness of SMEs, coupled with lack of collateral and the non-availability of bankable business plans critically hindered SME's from accessing various forms of equity capital.

The financial institutions interviews concurred with literature and results from SMEs survey with all the interviewees agreeing that many SMEs did not have the requisite skills to compile a business plan or to manage their finances in a professional manner. They also underscored the need for SMEs to keep professional accounting records, which the banks may use assess the level of risk involved in providing assistance to the SME. Furthermore, the findings suggest that business which have been in operation longer are more likely to get a loan from the banks, through a government guarantee scheme for SMEs that are able to provide a sound business plan, cash flow projections for a periods and a sound business proposal.

5.2.CONCLUSION

This study focused mainly on challenges of accessing finance by SMEs from financial service providers in Khomas Region, Namibia. Based on the findings, the following conclusions are drawn.

5.2.1. To explore the challenges of accessing finance from different financial services providers by SMEs in the Khomas region.

Loan Processing and Procedures

The lack of skills in preparing a business proposal, coupled with lack of knowledge of the loan application procedure were noted as challenges in accessing finance for SMEs growth and expansion. Additionally, the SMEs felt that the procedures for loan application were complicated and that the number of documents required when applying for loan were also too many. SMEs typically require relatively small loans as compared to large firms.

Yesseleva (2013) posits that it is a prerequisite for the efficient allocation of resources by market forces, that all participants share the same relevant information. The transaction costs associated with processing and administering loans are however fixed and banks often find that processing small SME loans is inefficient. In trying to improve efficiency and reduce risks the banks end up complicating their processes which also leads to delays in loan approvals. Therefore, there is a

need to find more effective ways to ensure that the information gap between financial institutions and SMEs is closed to ensure an efficient loan approval processes.

In a nut shell, with respect to the relationship between SMEs failure or growth and access to loans from financial institutions as banks and MFIs, there is a positive correlation to the relationship between them. That is, SMEs failure was on the rise when financial institutions made rigid their conditions for access to financial resources and services.

Lack of Collateral

The SMEs felt that the collateral requirements and the high interest rate associated with SME finance were hindering their access to finance. While, the financial institutions are aware that in SMEs, asset substitution may take place between the enterprise and the owner's household. Thus, the proximity to the household, the lack of legal formalization, weak financial disclosure and owner-managed nature of SMEs make it hard for lenders to track ongoing changes to the asset base of the SME. The presence of these problems in SMEs may explain the greater use of collateral lending to SMEs as a way of dealing with these agency problems.

April (2005) emphasizes that financial institutions are more likely to approve loans to firms that are able to provide collateral and to those firm that have established long term relationship with lenders. Due to the existence of asymmetric information, banks base their lending decisions on the amount of collateral available. Collateral acts as a screening device and reduces the risk of lending for commercial banks. Furthermore, the high interest rates charged the SMEs increases

probability of default and the quality of the borrower pool worsens as the cost of borrowing rises. Tightening collateral security requirements is one of the ways through which financial institutions attempt to protect themselves against risks. By pledging his assets, a borrower signals the quality of his project and his intention to repay. Small firms are disadvantaged in this regard, they lack collateral security and also a proved credit track record. Therefore, firms with innovative products may be constrained by the lack of access to finance because they may not have collateral security. Further, information asymmetries may prevent financial institutions from seeing the profitability of the proposals (April, 2005).

High Risk Perception

Lepolesa (2008) observes that commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. The SMEs in all industry parts have development and occupation creation challenges as four in five of the SME overviewed utilized five or less individuals, with SMEs in the Trading area remaining reliably smaller scale even following 5 years of operation. These micro- SMEs are according to Ackah & Vuvor (2011) not likely to get assistance from banks due to their high risk and high transaction costs associated with micro-SMEs.

The most respondents indicated that the range of challenges facing SMEs applicants are the lack of required documents which appeared to be the major challenge, followed by inability to prepare business plans. More than half of those respondents underscored the need for SMEs to keep professional accounting records, which banks may use to assess the level of risk involved in

providing assistance to the SME. More than 66% of the respondents noted that due to the high risk associated with the sector due to business morbidity it was important to come up with a model 60 that could help identify the SMEs that are performing well and then provide them with financial and technical support. These firms are, by their very nature, often relatively young and consequently lack a financial history and a track-record of profitable projects.

5.2.2. Factors Affecting the Access to Finance for SMEs

Despite the fact that SMEs play a major role in job creation, they are faced with numerous challenges such as educational qualifications of those who start up SMEs. In a research done by Jauch (2010) it was found that four in five people (SME owner) surveyed only had Grade 12 or lower grade qualification and these would limit their job prospects and economic alternatives. The research therefore concluded that the potential of SMEs to contribute to the growth of the economy is limited by these challenges and it also meant that these SMEs will find it difficult to become fully developed business firms.

A question was posted to the respondents asking to explain some of the factors that hinder SMEs from growing in general and a respondent from a commercial bank (SME Bank) pointed out that one of the major obstacles that hamper SMEs from growing such as those in the John Pandeni Constituency is inadequate capital. Due to inadequate capital these means that these SMEs are unable to pay their employees, purchase their stock or even cover for their monthly running costs. That is also why it is uncommon for some SME employees to receive irregular remunerations.

In another research done by Ogbokor and Ngeendepi (2010) it was observed that SMEs in Namibia are very risky, because majority of SMEs started breakdown within their first two years of operation. The research also concluded that lack of infrastructure and mistrust from their suppliers are some of the contributing factors to the failure of SMEs or becoming fully established business firms. Another big obstacle hampering the growth of SMEs in Namibia is inadequate education of SME owner (relevant business operation skills). In these research it was stipulated that a third of the people surveyed through interviews have acknowledged the fact that the government through the office of the Ministry of Trade, Industrialization and SME Development have made efforts to develop incubation programmes that are aimed at helping SMEs in Namibia. These programmes will help the SMEs to develop well-structured business plans that reflect their projections and anticipated business growth in five years' time.

The findings also show that respondents from the banks and other financial institutions were immensely concerned about the limited role that the government is playing in empowering disadvantaged people, which accentuates the challenge to provide SMEs with startup capital. However the access to startup capital remained a huge hindrance to many SMEs who wanted to start and grow a business. However, those from the Ministry of Trade, Industrialization and SME Development stressed that the government perceives the SME sector as a vital sector in creating employment and also generating revenue for the country. The interviewees pointed out that the government has designed programmes to assist individuals who are operating an SME, with the interviewees from the Ministry of Trade, Industrialization and SME Development pointing out that the government of Namibia through the Ministry has introduced a programme which assists

SME entrepreneurs by providing them with a guarantee when they meet stipulated requirements to access a loan from the banks.

5.2.3. To explore the impacts of the challenges faced by SMEs owners on their ability to start up, grow and survive

This research has identified few major challenges that SMEs owners might still face when growing.

Lack of capital

Lack of capital is often the most critical challenge that a successful SME faces. Without very diligent cash flow management and/or rising of more capital, including debt, the business often is constrained by capital as it grows. Often the profit in one operating cycle is insufficient to fund the extra working capital required for the next operating cycle.

This can be made even worse where capital goods are required to process the goods and the company cannot finance the acquisition of these capital assets. Many capable entrepreneurs cannot overcome the obstacles in their businesses cash flow cycle and cannot understand why bankers and other lenders often cannot provide the financing as the SME often does not have the security to support the debt. This actually hinders the growth of SMEs.

Lack of management skills

Lack of management skills is a problem that is very difficult to deal with in most SMEs as the size of the senior management team is necessarily limited. These areas of weakness could be in finance, human resources, marketing or any area where the current management does not have the expertise, or the time to deal with the issues.

The solution is to determine what those areas of weakness are and then to develop a plan for dealing with those challenges. Once one spends time to recognize a weakness as long as it is not in a core area for the specific business it often can be compensated for without a lot of time, effort or money.

Lack of a planning

Lack of a plan is often a fundamental problem for many SMEs. The arguments for planning are many and irrefutable and yet this is a very common failing for most SMEs except those that are enjoying very rapid growth.

Poor procedures

Poor procedures are a constant challenge for a SME trying to manage with limited resources. Most entrepreneurs do not realize that the procedures in place for managing the business need to be well designed to reduce the incidence of errors. Error correction is often a major waste of time and particularly management time. Good procedures with a little time and effort invested up front will usually pay enormous dividends in time and cost savings on an ongoing basis.

5.2.4. Recommendation solutions in improving access to financial services providers in Namibia.

The overall goal of any financial institution granting loans and other financial support services to businesses is to attain and sustain the long-term competitiveness and growth of enterprises and resultant economic growth in the GDP of a country. This can only be accomplished if stringent but flexible measures are put in place for efficient delivery of such services. In this regard, the following recommendations are adopted for policy makers and financial institutions:

- **Financial Institutions** must be proactive and find innovative ways to accommodate SMEs. This can be done by assisting with preparation of business plans, training in financial management, record keeping and ensure that information of loans facilities are made available to SMEs. NGOs and parastatals can also help SMEs by offering training, mentoring, monitoring and evaluations, mobilizations of savings, while credit is offered by informal institutions. It is also important for formal credit institutions to experiment with innovative approaches to offering credit to SMEs.
- **The collateral requirement** for loan access limits SMEs from taking loans and financing their business to promote growth and diversification of their enterprises. Considering that most operators in the SMEs have no fixed asset, it is quite important to seek alternative means of guaranteeing such using salaries of employed people as a guarantee. Lending procedures of financial institutions was a major factor that affected decision of SME operators and owner managers to apply for loans. The government in collaboration with financial institutions

therefore, ought to work to resolve the challenge and ease lending procedures. Loan repayment period of financial institutions was also another factor hampering access to credit from formal financial institutions. Efforts therefore, should be geared towards extension of repayment periods by formal financial institutions.

- **Commercial banks** eligibility criteria should be made more flexible to enable more SMEs qualify for access of available financing. Commercial banks required 100 % collateral for any financing facility to SMEs. Such requirements were very stringent to most of SMEs. Mentoring and training should be made a condition subsequent to approval. It is beneficial for institution granting credit for SMEs to do continuous follow-up with clients, to ensure implementation of the financed business plan. This will further help in comparison of the projected cash flows at credit application with the actual cash. Any form of variances is a sign of alert and point of investigation to take corrective measure, therefore avoiding failure. A collaborative approach involving the government, SMEs, Banking institutions and other private sector should be engaged in an attempt to increase access to finance for the SMEs in Namibia. In addition, such institutions are encouraged to train and provide skills development relating to market trends, latest developments and assist in linking SME operators to the providers at affordable rate.
- **Identify and develop appropriate financing models** for SMEs in Namibia. In this regard, the government needs to establish friendly business loaning systems which should include low interest rate charges to ensure continuity of the business. The need for a simplified business registration process that can lead to an increase in the number of business registered in Namibia

cannot be over-emphasized. Financial transparency and robustness is highly recommended. Most SMEs failed due to lack of financial controls. Not having an in-house bookkeeper disabled business owners from making informed investment decisions or account for accurate income and expenditure. A Non-Governmental Organization should be identified to offer auditing services and be subsidized by either the Namibian Chamber of Commerce and Industry (NCCI) or the government as part of credit guarantee project. The bookkeeping and audit will allow SMEs to access finances if done by reputable people the banks trust and hence the banks can also provide credit worthy certificates to SMEs that comply with the above as motivation to SMEs.

5.3.CONTRIBUTION TO KNOWLEDGE

Below is a summary of some of the contribution to knowledge made during this research study with regards to SMEs:

- Small business in the Khomas region find it difficult to borrow money from financial for capitalization due to lack of collateral and poor credit rating due to lack of proper business and financial management records. Institutions do not effectively engage SMEs and perhaps elsewhere in the country to develop and support their business management and financial accounting skills to effectively and efficiently run their business.
- The study revealed that financial institutions categorically classify SMEs as high risk borrowers and thus charges them high interest rates when borrowing because the organizational and administrative deficiencies lower the quality of management, and a lack of appropriate accounting systems compromise the accessibility of information from SMEs on their repayment capacity.

- SMEs are not taking advantage of government support, resulting in them failing to enjoy benefits and government SMEs incubation program, equipment finance and credit guarantee schemes.
- The study revealed that most nearly all the SMEs in the Khomas Region had limited access to financial assistance because of lack of skills on the part of SMEs owners and lack of knowledge and information on the available financial assistance schemes for Small and Medium enterprises.

5.4.RECOMMENDATION FOR FURTHER RESEARCH

- It is likewise prescribed that further research be attempted to investigate routes in which practical subsidizing components can be set up that can help and organize SMEs.
- Future examination ought to likewise investigate the progression amongst SMEs and sexual orientation, particularly as to the young and male SMEs proprietors.

Furthermore, the center of this study was on the single portion of the SMEs concerning money related access block as a wellspring of their disappointment. The study disregards alternate elements of budgetary establishments for the vast undertakings and their capacity to get to monetary administrations for financial development. It is clear thus, that such issues as part of the budgetary foundations on different fragments of the economy were not considered. In this

way, an investigation of access to money related administrations for huge and insurance solid organizations portraying extensive endeavors gives a range to future exploration.

5.5.CHAPTER SUMMARY

The study was an exploratory study in to the analysis of access to financial services as a source of failure for SMEs in Khomas region, Namibia. Basis for failure of SMEs on their inability to access finance in the Khomas region of Namibia formed the gist of the study. Findings indicated a positive correlation between flexibility in conditions of access of loans from Micro Finance Institutions and banks to the SMEs growth. The lack of registration and other statutory requirements fueled this condition of imminent failure. The recommendations targeted the financial institutions, entrepreneurs, government and policy makers for policy reviews and good political will. The area of research on the same phenomenon for large enterprises is also recommended for the area of study.

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APPENDIX A1**Questionnaire Cover Letter**

My name is Ester Oufrou Shangadi. I am a student at the Namibia Business School, University of Namibia. I am conducting a research study in partial fulfillment of the requirement for the Master in Business Administration Degree. The topic for my Study is **“An investigation into challenges of accessing by SMEs from financial services providers in Khomas Region, Namibia”**. All information will be **STRICTLY CONFIDENTIAL** and will only be used for academic purpose. Your cooperation is requested to make this study a success.

APPENDIX B: QUESTIONNAIRE AND INTERVIEW GUIDE

Survey on an evaluation of SME's access to finance in Khomas region

PART A: DEMOGRAPHIC: (The respondent must be the owner of the business)

12. Name of the business.....

13. Name of the respondent.....

14. (A) Sex of Respondent

Male ()

Female ()

15. What is your age (Years)?

18-23 ()

24-29 ()

30-35 ()

36-40 ()

Above 40 ()

16. How many Years of work experience do you have in SMEs business?

Less than 1 year ()

1-5 years ()

5-10 years ()

More than 10 years ()

17. What is your level of Education?

Diploma ()

Degree ()

Masters and Above ()

Others ()

18. Indicate your marital status

19. Position held in the business

Owner and Manager ()

Employed Manager ()

Sales Person ()

20. What is your range in number of employees?

1-10 ()

11-20 ()

21-30 ()

31 and Above ()

21. Where is your business located?

Town Centre ()

Katutura ()

Any other area()

22. Please indicate the nature of your business

Manufacturing ()

Trade ()

Construction ()

Services ()

Agriculture ()

Construction ()

Others ()

23. With who is your business registered? Please tick

Ministry of Trade and Industry ()

Town council/ Municipality ()

Ministry of finance ()

Other ()

PART B: Finance

24. What was the start- up cost (fixed and working capital) of this business?

N\$

25. What was your main source of money to start this business?

Own Savings ()

Family assistance ()

Loans from institution()

Borrowed from friend ()

26. Have you ever applied for a loan from an institution?

Yes ()

No ()

27. Have you heard of the following organizations, have you used the organization?

Namibia Development Bank ()

First National Bank ()

Standard Bank ()

Bank Windhoek ()

NedBank()

Comment

.....

.....

.....

28. If never applied for a loan, is there any reason why you have not applied for a loan from an institution (please tick all that applied)

Interest rates too high ()

Lack of collateral ()

Bank too far ()

Loan application procedures too complicated ()

Other ()

29. What are the major problems you are facing in your business?

Lack of Finance access ()

Lack of credit for investment ()

Lack of management training ()

Lack of marketing information ()

Others ()

APPENDIX C: QUESTIONNAIRE FOR FINANCIAL INSTITUTIONS

PART A

- I. COW/ Ministry of Trade/ Commercial Banks/ DBN /SMEs:

- II. Name.....
- III. Position.....
- IV. Length of time in this Position.....
1. I am an official at the SMEs financing department
 Yes ()
 No ()
2. Does your Institution have a special lending facility for SMEs?
 Yes ()
 No ()
3. Do you have an Institutionalized risk mitigation scheme for lending to SMEs?
 Yes ()
 No ()
4. Does your institution have special interest rate for SMEs
 Yes ()
 No ()
5. When lending to SMEs do you employ
 Collateral-based lending () or cash flow- based lending ()
6. Does your Institution have a credit rating system?

Yes () or No ()

If yes do you use this as a basis for?

Approval Yes () No ()

Pricing Yes () No ()

Monitoring Yes () No ()

7. Does collateral play a big role in approving a loan for SMEs?

Yes ()

No ()

8. Does your Institution provide financial management training to SMEs after approving their Loan and why?

.....
.....
.....
.....

9. What are the factors that your Institution consider before approving a loan to SME

.....
.....
.....
.....

10. Most type of sector SMEs your financing entity

Agriculture ()

Manufacturing ()

Tertiary ()

11. What's the minimum and maximum does your institution finances the SME's

20 000 ()

150 000 ()

500 000 ()

1.5 000000 ()

3 Million Above ()

PART B: An evaluation of SME's access to finance

1. Type of your financial Institution (tick correct answer)

Commercial bank	
Development bank	
Microfinance	
SME bank	
Government credit scheme	
Other, please specify	

2. What are the types of loan or financial assistance is offered to SMEs by your financial institution (tick correct answer)?

Type of financial assistance	
Overdraft	
Bridging loan	
Term loan	
Fixed loan	
Revolving credit	

Other	
-------	--

3. Specify whether the SME operator who approached you for financial assistance had prepared their document well (tick correct answer)

Financial Aid documents submitted	
20 %	
50 %	
60 %	
100 %	

a) If 100 % is not ticked, then pick a reason why not all documents are not submitted (tick correct answer)

Financial Aid documents submitted	
Lack of knowledge of the required documents	
Failure to prepare the documents properly	
Inability to prepare business plans	
Lost documents	
Others (please specify)	

4. Collateral

Collateral is a property or other asset that a borrower offers as a way for a lender to secure the loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recoup its losses.

a) Does your organization require collateral security for loan or financial assistance application by SMEs? (tick correct answer)	
Always	
Sometimes	

No	
b) If your organization requires collateral security for a loan or financial assistance application by SMEs, what form of collateral security is required? (tick correct answer)	
Fixed property	
Insurance policy	
Machinery	
Investment securities	
Others(please specify)	

Thank you for your cooperation!!!